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Prime Minister
Summary only.
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FM PRETORIA 011200Z AUG 84

TO ROUTINE FCO

TELEGRAM NUMBER 216 OF 01 AUGUST

INFO ROUTINE DTI (FOR TITCHENER AND OT5), BANK OF ENGLAND (FOR MAYES) ECGD (FOR BREACH), TREASURY, CABINET OFFICE (FOR ASSESSMENTS STAFF), AND MODUK (FOR DEI).

CDP
2/P.

INFO SAVING JOHANNESBURG (ACTIONED), DURBAN (ACTIONED), CAPE TOWN (ACTIONED), MASERU, HARARE, MBABANE, GABORONE, MAPUTO (ACTIONED), LUANDA, LILONGWE, LUSAKA, WASHINGTON, UKDEL BRUSSELS, UKDEL NATO AND UKMIS NEW YORK.

RECENT TRENDS IN THE SOUTH AFRICAN ECONOMY AND THEIR POLITICAL IMPLICATIONS

SUMMARY

1. THE RECESSION IN SOUTH AFRICA CONTINUES TO DEEPEN. THE RAND HAS RECENTLY DECLINED IN VALUE BY ABOUT 15 PERCENT AGAINST MOST OTHER CURRENCIES. INFLATION IS STEADILY RISING. THE SHORT-TERM OUTLOOK IS GRIM AND THE LONGER-TERM TREND DISQUIETENING. THE GOVERNMENT ARE STILL FAILING TO TACKLE THE ROOT CAUSES OF THE PROBLEM WHICH LIE IN THE STRUCTURE OF SOCIETY. PARTICULARLY AT STAKE ARE WHITE LIVING STANDARDS WHICH SEEM SURE TO CONTINUE TO DECLINE.

DETAIL

2. 1984 IS TURNING OUT TO BE A MORE DIFFICULT YEAR FOR THE SOUTH AFRICAN ECONOMY THAN EVEN PESSIMISTS HAD FORECAST. THE RECENT DECLINE BY ABOUT 15 PERCENT IN THE VALUE OF THE RAND AGAINST MOST OTHER CURRENCIES, THE CONTINUING STRENGTH OF THE US DOLLAR, A DETERIORATING BALANCE OF PAYMENTS POSITION AND UNHEALTHY FINANCIAL AND PRODUCTIVITY INDICATORS PROMPTED VOLSKAS, A LEADING SOUTH AFRICAN BANK, TO COMMENT RECENTLY THAT 'SELDOM IF EVER SINCE THE END OF THE SECOND WORLD WAR HAS THE SOUTH AFRICAN ECONOMY BEEN IN SUCH DIRE STRAITS AS IT IS AT PRESENT'.

3. GOLD ACCOUNTS FOR ABOUT HALF OF SOUTH AFRICA'S EXPORT EARNINGS AND THE ECONOMY IS ACCORDINGLY VERY VULNERABLE TO THE UNPREDICTABLE MOVEMENTS IN THE PRICE OF THIS KEY COMMODITY. THE GOLD PRICE AND THE STRENGTH OF THE US DOLLAR ARE ADMITTEDLY OUTSIDE SOUTH AFRICA'S CONTROL. BUT WHITE SOUTH AFRICANS, LONG ACCUSTOMED TO HEALTHY GROWTH RATES, DEPENDABLE PROFITS AND STEADILY RISING LIVING STANDARDS, HAVE BEEN RELUCTANT TO ACCEPT THAT SOUTH AFRICA TOO COULD BE ALL THAT SERIOUSLY AFFECTED BY THE INTERNATIONAL RECESSION. IN THIS THEY WERE ENCOURAGED BY THEIR GOVERNMENT WHICH IN THE AUTUMN OF 1981 FIRST DENIED EVIDENCE OF A DOWNTURN, THEN PREDICTED THAT IT WOULD BE MINIMAL AND SHORT-LIVED, AND HAVE SINCE

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PERSISTENTLY FOSTERED FALSE EXPECTATIONS BY PRESENTING A DISTORTED PICTURE OF THE ECONOMIC REALITY. RECENT ANNUAL BUDGET FORECASTS HAVE LACKED CREDIBILITY. THE GOVERNMENT ENDEAVOURED TO GIVE THE IMPRESSION, BOTH AT HOME AND ABROAD, THAT SOUTH AFRICA WAS A SHINING EXAMPLE OF FINANCIAL DISCIPLINE. BUT THEY HAVE, FOR EXAMPLE, GRANTED SUCH LARGE SALARY INCREASES TO CIVIL SERVANTS THAT THEY ARE RELUCTANT TO MAKE THE DETAILS PUBLIC. THEY GIVE THE IMPRESSION OF HAVING LOST CONTROL OF THEIR SPENDING, WHICH IS CURRENTLY RUNNING AT NEARLY DOUBLE THE BUDGET FORECAST RATE OF A 11.7 PERCENT INCREASE OVER FY 1983/84.

4. INFLATION IS RISING STEADILY. AN EARLIER FORECAST BY THE MINISTER OF FINANCE THAT IT SHOULD DECLINE FROM 11 PERCENT AT END 1983 TO 8.5 PERCENT BY END 1984 HAS BEEN DISCOUNTED BY MOST OBSERVERS WHO ARE PREDICTING A RISE FROM THE PRESENT NEARLY 12 PERCENT TO 14 OR 15 PERCENT. THE COST OF IMPLEMENTING THE NEW CONSTITUTION AND OF PURSUING ECONOMICALLY UNSOUND INDUSTRIAL DECENTRALISATION POLICIES IN PURSUIT OF THE IDEOLOGICAL REQUIREMENTS OF SEPARATE DEVELOPMENT, THE FINANCIAL BURDEN OF NAMIBIA, THE EFFECTS OF THE WORST DROUGHT THIS CENTURY, THE INCREASING IMPOVERISHMENT OF THE HOMELANDS WHERE NEARLY 1.5 MILLION BLACKS ARE DESTITUTE (NO INCOME, NO LAND, NO CATTLE) AND ANOTHER 7.5 MILLION ARE SURVIVING BELOW A MINIMUM SUBSISTENCE LEVEL IS BOUND TO PLACE A SEVERE STRAIN ON RESOURCES. THERE HAS HOWEVER BEEN LITTLE EVIDENT PUBLIC DESIRE TO FACE UP TO THE ECONOMIC IMPLICATIONS OF THE PRESENT CRISIS. SAVINGS ARE AT AN HISTORICAL LOW (3 PERCENT OF NET DISPOSABLE INCOME) AND CONSUMER DEBT IS AT AN ALL-TIME HIGH. PRIME RATE IS AT 22 PERCENT AND THE INCREASE IN THE BROAD MONEY SUPPLY (M2) AT 20 PERCENT OVER 1983 LEVEL IS A CAUSE FOR CONCERN. BANKRUPTCIES, BUSINESS FAILURES, MORTGAGE AND HIRE PURCHASE ARREARS ARE ON THE INCREASE.

5. THOUGH SERIOUS, IT WOULD BE WRONG TO DESCRIBE THE PRESENT ECONOMIC SITUATION AS DESPERATE. SOUTH AFRICA STILL ENJOYS WHAT IS PERCEIVED INTERNATIONALLY AS A HEALTHY OVERSEAS DEBT SERVICE RATIO OF 6 PERCENT AND ITS INTERNATIONAL CREDITWORTHINESS IS NOT (YET) UNDER STRAIN. SOUTH AFRICA HAS AN ENVIABLE INFRASTRUCTURE. ITS PORTS, ROADS AND RAILWAYS ARE SECOND TO NONE IN AFRICA AND CAN HANDLE A SUBSTANTIAL INCREASE IN TRAFFIC WHEN THE RECESSION ENDS. SOUTH AFRICA IS THE REGION'S INDUSTRIAL AND MILITARY GIANT. ITS MINERAL AND OTHER NATURAL RESERVES ARE SIGNIFICANT. IN COMPARISON WITH WEST EUROPEAN ECONOMIES, THE SOUTH AFRICAN ECONOMY IS SMALL-SCALE AND ITS INDICATORS ARE DECEPTIVELY VOLATILE AND NEED TO BE INTERPRETED CAUTIOUSLY. SOUTH AFRICA IS ONE OF THE FEW COUNTRIES IN AFRICA WHERE OVERSEAS SUPPLIERS GET PAID WITHOUT HASSLE. (BRITISH EXPORTERS SHOULD BE ABLE TO CONTINUE TO DO GOOD BUSINESS IN SOUTH AFRICA. IN STERLING TERMS, BRITISH EXPORTS WERE UP 27 PERCENT OVER 1983 IN THE FIRST FIVE MONTHS OF THE YEAR. BUT THE JAPANESE SEEM LIKELY TO EDGE US OUT OF THIRD POSITION, AFTER THE US AND GERMANY, AS SUPPLIERS.)

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6. THE ANXIETIES OF THE SOUTH AFRICAN GOVERNMENT MAY INDEED BE LESS CONCERNED WITH PROBLEMS OF INDUSTRIAL STRATEGY AND RESOURCE DEVELOPMENT AS WITH THE POLITICAL IMPLICATIONS OF DECLINING WHITE LIVING STANDARDS. THE LONGER-TERM TREND IS DISQUIETENING. GROWTH RATES OF 5 PERCENT AND MORE IN THE 1950S AND 60S GAVE WAY TO AN ANNUAL AVERAGE OF 3.5 PERCENT IN THE 1970S. IN THE FIRST HALF OF THE 1980S, THE AVERAGE IS UNLIKELY TO EXCEED 2 PERCENT. IT IS HOWEVER GENERALLY ACCEPTED THAT A 5 PERCENT GROWTH RATE IS NEEDED JUST TO KEEP UNEMPLOYMENT AMONG THE RAPIDLY INCREASING BLACK POPULATION AT THE PRESENT LEVEL OF ABOUT 20 PERCENT. THE EXPECTED DECLINE IN WHITE LIVING STANDARDS COULD IN DUE COURSE POSE SERIOUS POLITICAL PROBLEMS FOR P W BOTHA UNLESS HE IS ABLE TO CONVINCE WHITES THAT THIS DECLINE IS BOTH INEVITABLE AND EVEN DESIRABLE. HIS PERSONAL STANDING AND THAT OF THE NATIONAL PARTY ARE FORTUNATELY STILL HIGH AFTER HIS VICTORY LAST NOVEMBER IN THE REFERENDUM ON THE NEW CONSTITUTION AND HIS RECENT EUROPEAN TOUR. IT WOULD ONLY BE HUMAN FOR WHITES TO RESIST ANY DECLINE IN LIVING STANDARDS, BUT RESISTANCE SEEMS BOUND TO LEAD TO INCREASINGLY WIDESPREAD PERSONAL FINANCIAL CRISES AND SOCIAL TENSIONS. THE BATTLE FOR ECONOMIC SURVIVAL IN SOUTH AFRICA COULD BE FOUGHT AS MUCH IN THE FAMILY HOME AS IN THE BOARDROOMS OF COMMERCE AND INDUSTRY.

7. FCO PLEASE PASS SAVING ADDRESSEES.

TONKIN

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-3-

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