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Eric Quinton  
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PRIME MINISTER

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SOUTH AFRICA

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I spent Christmas and the New Year in the Cape, mainly on my wife's family wine farm in the Paarl Valley. We were also at the coastal resort of Hermanus, where all the Johannesburg business barons congregate at Christmas, and also in Cape Town. As well as businessmen like Hersov and Menell of Anglovaal, and Oglivie-Thompson of de Beers/Anglo-American, I also saw Jan Steyn of the Urban Foundation and Kent Durr, recently appointed to the Cabinet with equivalent responsibilities to our DTI plus tourism. I also had a chance to talk to Cape land owners and wine and fruit growers, including Afrikaners of Hugenot origin who probably voted Conservative in the last election. I attended Robin Renwick's New Year party at the British residence where there was a good cross section of politicians, industrialists and academics.

Here are some impressions of how South Africa feels on the ground:

There is general optimism that the old stalemates are about to be broken. Most people are feeling positive about de Klerk and very positive about the stance Britain has been taking.

There is an air of expectation that great change is imminent. People are starting to think non-rationally. The key issues are perceived to be economic. How can foreign capital be drawn in order to fuel the growth rate needed to prevent unemployment rising?

The numbers are spectacular. Forty per cent of the black population is under 15 years old compared to 23% of whites.

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These figures will drop respectively to 33% and 19% by the year 2010. However the overall characteristic is of a very young black population and an ageing white population.

The labour force is increasing annually by about 400,000 of whom 330,000 are black and the school population by 300,000 of whom practically all are black. The urban population is expected to increase from 19 million (60% black) to 40 million in the year 2010 of whom 75% will be black. The black community overall will increase annually by at least 800,000.

In the 1960s GDP growth was just below 6%. This fell to 3% in the 70s and 1% during the 80s. Between 1977 and 1987 real earnings per capita fell by 0.6%! It was possible to accommodate this because current real GDP per capita is sufficiently high - about three times that of the early 1930s. However these figures underline the enormous threat from continued lack of growth.

Every one per cent growth in GDP produces half a per cent growth in new employment. Since the overall labour force is growing at some 2.8% per annum a GDP growth of 5.6% is needed to contain the labour force and prevent unemployment increasing.

Fresh foreign capital is important and we should support this in return for political advance - eg Mandela. However the core of the problem is not just foreign capital constraints but the very unequal distribution of income which closes markets to large sectors of the population. In the early eighties 10% of the population received half of the household income, while the bottom half received below 7% of household income.

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Despite talk of the gap closing, many economists believe that the disparity has actually increased. The very poor have got richer! But the rich have got very much richer with the poor whites increasingly alienated - hence the strong underlying support for Treurnicht. This also explains why the South African economy has a high propensity to import goods and why the balance of payments is a further constraining factor to economic growth.

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Lack of foreign capital is important, but also is the shortage of highly skilled manpower and the warped domestic market. The Left often present apartheid as a consequence of capitalism. This is false. Apartheid is a form of racial socialism which has distributed wealth on the basis of genetic structure. This has severely curtailed the return on capital of the economy as a whole.

De Klerk's great challenge is to accept that he is the last 'Afrikaner' leader without being a traitor to the 'volk'. He has the opportunity to become the first leader of a truly united South Africa. This was once true of P W Botha but, after a positive start, time isolated him and just before the 'Rubicon' speech in 1985 he lost his nerve. He even began to spout in private the nonsensical line, still heard among Conservative supporters, that there is some international conspiracy operating against the Afrikaner. This is a frequent theme on the farms in South Africa. International Jewry, in alliance with international business, is the usual culprit. This unholy alliance apparently has the goal of destroying Afrikanerdom. The Blacks are not the enemies but simply the unwitting tools of such forces.

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De Klerk is completely disassociated from that kind of thinking and hopefully will remain immune. One very positive point for his authority is that he has taken the National Party

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leadership base back to the Transvaal. PWB was always undermined by the Cape/Transvaal rivalry.

Such Conservative opinion as I heard was not so much hostile as despondent. Many believe that the recent election was the last chance. They are apprehensively and pessimistically watching Namibia as the pilot for what will ultimately happen to them. Many have crossed their own Rubicon and believe that the National Party has irrevocably sold out. They are in a political cul de sac and know it!

Elsewhere the atmosphere was positive. I was on the recently desegregated beaches in Clifton and Sea Point at Cape Town as well as the remoter coastal resorts. There is some grumbling from the older Whites about what the Coloureds are doing to the beaches near Cape Town! This is less evident as one goes farther afield where people tend to continue their traditional patterns. It should settle down but there may be some flare-ups in the short-term, particularly close to Cape Town at weekends.

I took a few days out to visit the West Coast and went as far as Lamberts Bay, 200 miles North of Cape Town. The upward journey was through the citrus valleys which export apples, oranges and peaches then southwards down the West coast via the iron ore exporting terminal at Saldhana Bay - much activity! I also visited the 1,800 MW nuclear power station at Koeberg, built on the coast, which is now using domestically produced and refined uranium.

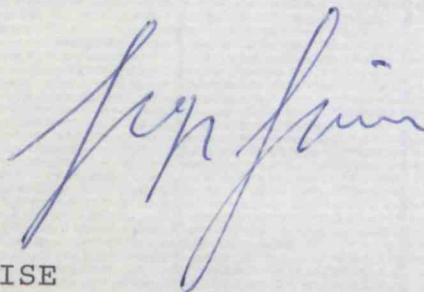
Considering the very low population density, there was much activity on the West coast and particularly on the fruit farms. This is where sanctions would really bite - with Coloured unemployment as the first consequence!

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OVERALL COMMENTS

1. There is much optimism and great faith in the cities but some despondancy among the old Afrikaner families on the farms.
2. The Nats are no longer the right wingers. They are the practical reformers which many Democrats and old style Progressives grudgingly recognise. Politicians like Kent Durr are grateful that the election was not more polarised with a thinner centre. However they are conscious of their dependency on marginals. I was constantly reminded that only a small movement in white opinion could produce a very different voting pattern and that the Conservatives could become a major force following some future election.
3. De Klerk is showing great courage, particularly in allowing the recent uncontrolled public demonstrations. He is under the same kind of 'meat in the sandwich' pressures as Gorbachev and vulnerable to a run of bad luck which could push him into short term policy reversals. He merits much support with immediate positive signals from the UK if he does make real political headway in the forthcoming months.



GEORGE GUISE

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