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EAST BERLIN PERSONAL FOR PRIVATE SECRETARY

SOUTH AFRICA: MEETING WITH THE FINANCE MINISTER

1. WHEN I CALLED ON THE SOUTH AFRICAN FINANCE MINISTER. I CONGRATULATED HIM ON HAVING ACHIEVED THE FIRST REAL CUTS IN DEFENCE SPENDING IN SOUTH AFRICA IN MANY YEARS.
2. BAREND DU PLESSIS SAID THAT IT HAD BEEN A MAJOR STRUGGLE. BUT AN IMPORTANT VICTORY. THE SADF GENERALS HAD CONTENTED THAT SOUTH AFRICA STILL FACED SERIOUS POTENTIAL THREATS FROM OUTSIDE. AND IN PARTICULAR FROM THE ADVANCED MILITARY AIRCRAFT SUPPLIED BY THE SOVIET UNION. HE ASKED IF I COULD PROVIDE HIM WITH OUR ESTIMATES OF THE FORCE LEVELS IN THE NEIGHBOURING STATES. I SAID THAT I WOULD LET HIM HAVE THE FIGURES IN THE IISS STRATEGIC SURVEY. THE ONLY REALLY FORMIDABLE FORCES WERE IN ANGOLA: AND ANY THREAT THEY CONSTITUTED TO SOUTH AFRICA HAD BEEN GREATLY REDUCED BY THE EFFORTS THE AMERICANS AND WE HAD INVESTED IN SECURING THE NAMIBIA SETTLEMENT AND BY CUBAN WITHDRAWAL. THE REAL "THREAT" TO THE SADF AROSE WHEN THEY WERE INTERFERING IN THE NEIGHBOURING COUNTRIES.
3. I TOLD BAREND DU PLESSIS THAT A LOT OF EXPECTATIONS HAD BEEN RAISED ABOUT THE SPEECH THE PRESIDENT IS DUE TO MAKE ON 2 FEBRUARY AT THE OPENING OF PARLIAMENT. WE WOULD BE DOING WHAT WE COULD TO HELP KEEP THOSE EXPECTATIONS UNDER CONTROL. WE UNDERSTOOD THAT THE WHOLE PROCESS OF REFORM AND NEGOTIATION HERE WAS BOUND TO BE A PROTRACTED ONE. WE HAD NO DOUBT THAT DE KLERK WOULD BE ADDRESSING THE OBSTACLES TO NEGOTIATION IN HIS SPEECH. IT WAS VERY IMPORTANT. HOWEVER. THAT SOMETHING POSITIVE SHOULD BE SAID ABOUT THE RELEASE OF MANDELA. EVEN IF HIS RELEASE DID NOT FOLLOW IMMEDIATELY. OTHERWISE THE PRESENT VERY POSITIVE MOMENTUM WOULD START BEING LOST.
4. BAREND DU PLESSIS SAID THAT HE AND VILJOEN BOTH WERE IMPATIENT TO SEE A CLEAR ANNOUNCEMENT MADE THAT MANDELA WOULD BE RELEASED. DE KLERK WAS PLAYING THIS VERY CLOSE TO HIS CHEST. HE NATURALLY WAS CONCERNED THAT MANDELA'S RELEASE SHOULD LEAD INTO TALKS. BUT BAREND DU PLESSIS WAS VERY CONSCIOUS OF THE POSITIVE EFFECT FURTHER STEPS COULD HAVE ON HIS OWN ATTEMPTS TO NORMALISE SOUTH AFRICA'S RELATIONS WITH FINANCIAL INSTITUTIONS ABROAD.
5. BAREND DU PLESSIS ASKED WHAT IN OUR OPINION SOUTH AFRICA WOULD HAVE TO DO TO GET RENEWED ACCESS TO NEW INVESTMENT. I SAID THAT HE HAD DISCUSSED THIS WITH THE PRIME MINISTER IN LONDON LAST YEAR.

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DECISIONS/...

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DECISIONS ABOUT BANK LENDING AND NEW INVESTMENT WERE FOR THE COMPANIES AND THE BANKS AND WE COULD NOT TELL THEM WHAT TO DO. AS PRIME MINISTER HAD MADE CLEAR. WE WANTED TO SEE THE SOUTH AFRICAN GOVERNMENT DEAL WITH THE OBSTACLES TO NEGOTIATION IN ACCORDANCE WITH THE EPG APPROACH I.E. RELEASE MANDELA. LIFT THE STATE OF EMERGENCY AND UN-BAN THE POLITICAL ORGANISATIONS. IF THOSE STEPS WERE TAKEN, I BELIEVED THERE WOULD BE A RESPONSE FROM HMG.

6. BAREND DU PLESSIS SAID THAT HE HAD DISCUSSED THE POSSIBILITY OF RENEWED ACCESS TO THE IMF WITH BAKER IN WASHINGTON. HE HAD MADE CLEAR THAT ACCESS TO EXTERNAL CAPITAL WAS SOUTH AFRICA'S GREATEST NEED. HE UNDERSTOOD THAT THIS DEPENDED ON REAL PROGRESS BEING MADE INTERNALLY.

7. DU PLESSIS SAID THAT THE CUTS IN DEFENCE SPENDING WERE THE PRELUDE TO ANOTHER TOUGH BUDGET. HE WAS DETERMINED TO HOLD ANY INCREASE IN GOVERNMENT EXPENDITURE TO LESS THAN 1 PER CENT IN REAL TERMS. AS THERE WOULD HAVE TO BE INCREASED PROVISION FOR BLACK EDUCATION AND HOUSING. THAT MEANT CUTS IN OTHER DEPARTMENTS. SO FAR AS DEBT REPAYMENT WAS CONCERNED, THIS WAS THE YEAR IN WHICH RE-PAYMENTS WOULD BE LARGEST. TO FINANCE THESE SOUTH AFRICA WOULD HAVE TO ACHIEVE A PAYMENTS SURPLUS OF RAND SEVEN BILLION AND WAS DETERMINED TO DO SO. THAT MEANT SLOWING DOWN THE ECONOMY AND THERE WERE OBVIOUS SOCIAL COSTS TO THIS. ONCE THE HUMP OF BEARER BOND REPAYMENTS WAS OVER THIS YEAR, THE POSITION WOULD BE SOMEWHAT EASIER. BUT A TIGHT FISCAL POLICY WOULD STILL HAVE TO BE MAINTAINED.

8. FCO PLEASE ADVANCE TO NO. 10.

RENWICK

LIMITED.

#D/SAFD

HD/NEWS D

HD/PUS D

HD/ER D

PS

PS/Mr Waldegave

PS/Mrs Chalker

PS/PUS

Mr Weston

Mr Tomkys

Mr Bayne

Mr Fairweather

Mr Carrick

Mr Lancaster - ODA.

PS/No 10, Downing Street.

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