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SOUTH AFRICAN ECONOMY

1. I CALLED ON THE GOVERNOR OF THE RESERVE BANK THIS MORNING. DE KOCK EXPLAINED FRANKLY THE PRESENT CONSTRAINTS ON SOUTH AFRICA'S GROWTH. THE COUNTRY WAS SUFFERING FROM CAPITAL STARVATION. THE CAPITAL OUTFLOW HAD DECLINED FROM RAND 9 BILLION IN 1985 TO RAND 6 BILLION IN 1986 AND RAND 3 BILLION IN 1987. IN THE FIRST QUARTER OF THIS YEAR THE OUTFLOW HAD BEEN A MERE RAND 676 MILLION. BUT IN JUNE THERE HAD BEEN A FURTHER HEAVY OUTFLOW. HE ATTRIBUTED THIS TO THE IMPACT ABROAD OF THE MANDELA 70TH BIRTHDAY CELEBRATIONS, THE POSSIBILITY THAT DUKAKIS MIGHT BECOME PRESIDENT IN THE UNITED STATES,. THE RISE OF THE DOLLAR AND THE HIGHER INTEREST RATES IN BRITAIN AND GERMANY. THE NEXT RESULT WAS THAT THE OUTFLOW OF CAPITAL SO FAR THIS YEAR AMOUNTED TO RAND TWO AND A HALF BILLION. THE GOVERNMENT HAD HAD NO OPTION BUT TO INTRODUCE THE SURCHARGE ON A SELECTIVE RANGE OF IMPORTS.

2. DE KOCK SAID THAT THE PRESIDENT HAD MADE CLEAR IN HIS STATEMENT YESTERDAY THAT SOUTH AFRICA WOULD HONOUR ITS FOREIGN DEBT OBLIGATIONS HE HAD TOLD THE GOVERNMENT THAT THERE WAS NO DOUBT THAT IN THE SHORT TERM THE NECESSARY ADJUSTMENTS COULD BE MADE. THE NET EFFECT, HOWEVER, WAS GOING TO BE TO CUT BACK GROWTH IN ORDER TO PROTECT THE BALANCE OF PAYMENTS. THE VARIOUS TRADE SANCTIONS SO FAR IMPOSED HAD ONLY A MARGINAL EFFECT. THE PROBLEM WAS THE CAPITAL OUTFLOW WHICH WAS ESSENTIALLY A SANCTION IMPOSED BY THE INTERNATIONAL BANKING COMMUNITY AS A FUNCTION ON ITS JUDGEMENT OF THE PROSPECTS HERE. ANY IDEA THAT FURTHER SANCTIONS WOULD HAVE THE EFFECTS THEIR PROPONENTS SUGGESTED COULD BE DISCOUNTED. THE GOVERNMENT WOULD NOT GIVE WAY TO THAT KIND OF PRESSURE. SOUTH AFRICA COULD ''LIMP ALONG'' ON THIS BASIS FOR YEARS. BUT HE WAS NOT PREPARED HIMSELF TO BE SATISFIED WITH JUST LIMPING ALONG. THERE WOULD BE NO POSITIVE ECONOMIC DEVELOPMENT IN THE REGION IF THE SOUTH AFRICAN ECONOMY STAGNATED.

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3. I ASKED DE KOCK WHETHER THE SAG WERE LIKELY TO BE INTERESTED IN AN ATTEMPT NOW TO SMOOTH OUT THE DEBT REPAYMENT ''BULGE'' IN 1990/91. DE KOCK SAID THAT THE UNKNOWN FACTOR WAS THE UNITED STATES. THE DELLUMS BILL, IF PASSED INTO LAW, WOULD REQUIRE THE US BANKS TO SEVER ALL CONTACTS WITH SOUTH AFRICA. HE WAS AWARE OF THE EFFORTS WE HAD MADE TO HELP ENSURE THAT THE BILL WOULD NOT BE PASSED INTO LAW THIS YEAR AND WAS VERY GRATEFUL FOR THESE. IF IT WAS PASSED INTO LAW, SOUTH AFRICAN MINISTERS WOULD QUESTION WHETHER THEY COULD OR SHOULD CONTINUE TO MAKE PAYMENTS TO THE US BANKS, THOUGH THEY CERTAINLY WOULD CONTINUE TO HONOUR DEBTS TO EUROPEAN BANKS AND OTHERS WHO REMAINED IN CONTACT WITH THEM. DE KOCK REGARDED THAT AS A THOROUGHLY UNDESIRABLE SITUATION AND HOPED VERY MUCH THAT IT WOULD NOT ARISE.

4. I SAID THAT OUR ABILITY TO INFLUENCE THE INCOMING US ADMINISTRATION ON THIS SUBJECT WOULD DEPEND ON WHAT HAPPENED MEANWHILE. AS DE KOCK WOULD KNOW, WE HAVE BEEN CAMPAIGNING HARD TO PUSH THE ANGOLA/NAMIBIA NEGOTIATIONS FORWARD. IF AGREEMENT WERE REACHED ON ANGOLA/NAMIBIA, OR THERE APPEARED TO BE A REAL PROSPECT OF AGREEMENT, THAT WOULD GREATLY INCREASE OUR LEVERAGE WITH ANY INCOMING US ADMINISTRATION. DE KOCK SAID THAT HE KNEW ALSO OF THE EFFORTS WE HAVE BEEN MAKING TO SECURE THE RELEASE OF MANDELA. PERSONALLY HE SUPPORTED US ON BOTH COUNTS.

5. FCO PLEASE PASS TO MAYES (BANK OF ENGLAND) AND HM TREASURY.

RENWICK