

~~SECRET~~DDI #03672-85
3 September 1985

MEMORANDUM FOR: Director of Central Intelligence
 FROM : Deputy Director for Intelligence
 SUBJECT : South African Estimate

Bill -

1. Just between us, I'm not very happy with the way the South African estimate came out. It seems to me that we essentially ask only one question -- whether or not the South African regime will survive -- and then offer an equivocal answer. We say they have the resources necessary to survive but then kind of throw up our hands and say that there are a lot of unpredictable external and internal forces that could lead to collapse of the regime. Although that is a bit of an unfair oversimplification, it is still essentially the bottom line of the estimate.

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2. It seems to me that the way we should be addressing this issue at this point is to begin with an assumption that few experts now would quarrel with: because of the events of the last year or so, South Africa has been changed in fundamental ways.

-- The assumptions and perceptions of whites, blacks, the business community, the politicians and the international community have all changed.

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3. If one acknowledges that a real change in assumptions/perceptions has taken place in and about South Africa, the important questions then are how much has changed and what kind of future is in prospect in light of these undisputed changes. The Economist, in the attached very interesting article, postulates two scenarios -- degenerative collapse and a state of siege. I think our people and virtually everyone who coordinated the estimate would say that a state of siege is the more likely outcome. I would ask, however, whether a state of siege in a country of South Africa's size and composition can be stable or is a state of siege simply a way station on the way to more dramatic change.

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4. I am struck by how adamant analysts throughout the Community are in their view of the likely survival of the white regime. But the real, operational question for the United States perhaps is not whether the white regime will survive but what kind of regime will it be, how strong it will be, its economic prospects, what its relationships with the outside world will be, the degree of internal violence (civil war?), opportunities for external meddling, the implications for South Africa's regional security role and so forth. A South Africa in a state of siege or totally preoccupied with internal economic and political difficulties has very real impact on our interests in Southern Africa. Thus, I think we have taken too superficial a cut at this problem in the estimate and I plan to ask John Helgerson to have his people think more in the terms described above.

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Robert M. Gates
Deputy Director for Intelligence

Attachment:
As Stated

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second, that the possibility of legally requiring diversified accountancy firms to draw a strict dividing line (what City folk call a Chinese wall) between the audit and non-audit work is fully examined.

It is not only those who have issued writs who criticise accountants for failing to signal mismanagement and fraud. Yet accountants swear they are doing what they have always done. Is the chasm between how accountants and the public see auditing becoming too wide to bridge? Accountants are anxious that it should not be. The Institute of Chartered Accountants has hurried out the report of a working party chaired by Mr Ian Hay Davison, the chief executive of Lloyd's and a former head of the profession's accounting standards committee, on the role of the auditor in detecting and reporting fraud. The report is perceptive as far as it goes, but does not go far enough.

It acknowledges that the auditor has some responsibility in reporting fraud but echoes a nineteenth-century court judgment that he is a watchdog, not a bloodhound. The committee says it is employers who should be obliged to report fraud to the public authorities; accountants need only be encouraged to do so. True, an auditor's main duty is to alert a company's directors and through them its shareholders. What happens, though, if the employer or directors themselves are the crooks? At present, few fraud squad investigations are sparked by auditors, who are wary of breaching a client's confidence and risking defamation

suits. Encouragement may not be enough to stir them, particularly now that accountancy firms want to win much more than auditing contracts from their clients.

So many irons in the fire

With their diversification into management consultancy, tax work, executive recruitment and so on, less than half of the revenue of the big eight accountancy firms comes from the static and highly competitive audit side where profit margins are thin. Accountants, of course, deny that they are in consequence producing audits with less care than before or that there is any conflict of interest. It is a sincere rejoinder. The fact remains that, to outward appearances at least, accountancy firms have a growing financial temptation to be a bit more permissive on the audit so as not to lose a consultancy or tax contract.

Appearances are important and the appearance of a conflict of interest will grow if continued diversification and growth reduce the share of auditing revenues further. By spinning off their auditing practices from their non-audit work accountancy firms would reassure investors. Doing this will not be easy. It will reduce some of the efficiency joint audit and advice can bring. It is still probably a price worth paying to restore confidence in the independence and competence of the audit. Especially if accountancy firms are allowed to become limited liability companies and partners are no longer liable down to their last bottle of scotch.

SCENARIOS FOR SOUTH AFRICA

What future for South Africa? President P. W. Botha, his head ringing with the din of black riots, has put forward yet another batch of reforms. His hope is for gradual black advancement, eventually under a pluralist confederation of variegated mini-states—the presumption being that whites will always control the centre of power. His chances of success at present seem slim. Most outsiders prefer to expect South Africa to experience normal post-colonialism: growing violence, a collapse of white will to rule, black majority rule and one-party oligarchy. Marxists see a more drawn-out process: a new black bourgeoisie becomes the breeding ground for sometime revolution against white capitalism. Yet there are other, more plausible, options. We examine two of them. The first, Degenerative Collapse, would be tragic and unstable. The second, State of Siege, is unpleasant but could be sustainable and might lead to something better.

Degenerative Collapse

On the first model, the South African government fails to contain the present unrest. Moderate black leaders are unable to hold back the hotheads. Every dispute, however minor, turns violent. Economic depression and unemployment lead to disorder in the East Cape car and consumer durables industries and in Transvaal mining and manufacturing. Frightened whites begin to sack their servants. With the relaxation of the pass laws controlling movement between homelands and industrial towns, real wages fall. This sharpens friction between

16 "insider" blacks—those who have al-

ready carved out niches in the white system—and nothing-to-lose newcomers. There are explosive movements of the population. Thousands of families leave the homelands to join adults scouring the country for work, adding to 1.5m-plus illegal immigrants. Shanty towns, flooded with migrants, spring up menacingly round every centre of white prosperity. The population of the Johannesburg region soars from 2.5m towards the 12m of Sao Paulo or Mexico City.

Existing patterns of black leadership break under the strain. The United Democratic Front (UDF) can no longer co-ordinate protest or contain the violence. Its conflict with the more militant black consciousness group, Azapo, worsens. Ill-will between all other black politicians

and Chief Gatsha Buthelezi's Zulu-based Inkatha movement slides into guerrilla warfare. Soweto becomes a regular battlefield for inter-tribal riot and murder. Durban and Mr Buthelezi's adjacent homeland of KwaZulu are wracked by gang warfare between Zulus and other black groups.

The banned African National Congress, its headquarters in Lusaka, tries to take over the self-combusting unrest. The ANC is itself taken over by Moscow-trained militants, eager to direct the terror against a wider range of targets. City centres and white suburban shopping centres come under attack, as do white farms. The UDF splits, with church groups and trade unionists trying to draw back from the violence and then being

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attacked as traitors.

The most important factor in Degenerative Collapse is the white response. The spread of violence puts the police and the army under political as well as operational strain. Black policemen, recruited in ever greater numbers, become unreliable in patrolling the townships—even when men from “foreign” tribes are imported to do the job. Regular units of the South African Defence Force, made up of white conscripts, are ordered to take up the cudgels of repression, which further demoralises the police force. White policemen turn agents provocateurs in collusion with ultra-right vigilantes.

South Africa's black townships are designed for ease of policing. The end of influx control weakens this as white areas become pockmarked with shanties. Mass poverty, once tucked away in the homelands, is imported to white doorsteps. The shanties become no-go areas. Black councillors and officials either flee to safe compounds or join the rebels. Government authority collapses and local black leaders fill the power vacuum, aided by control of the liquor monopolies, vigilante bands and protection rackets. A new, reckless black leadership arises which lacks the will and the authority to negotiate political reform with the government.

A shift to the right

The progressive restriction of the areas of central control undermines confidence in white government. The white electorate shifts rightwards: some Afrikaners are ready for compromise, but they are steadily outnumbered by a combination of English- and Portuguese-speakers, many of them first-generation refugees from Rhodesia, Angola and Mozambique desperate to defend their new status.

Support for candidates of the Conservative party and other extreme right-wing parties (roughly 15% in 1985) grows rapidly. Every National party member of parliament feels that his seat is threatened. President Botha responds by a continued state of emergency, by condoning police excesses, by fierce restrictions of civil liberties and by a general repression of black and white dissent. Detention without trial soars. The once relatively independent judiciary is shackled.

By this stage, apartheid has taken on a more oppressive but less overtly racist character. Pass laws are scrapped completely, together with most of petty apartheid and the government's previous restriction of black citizenship to homeland areas. But white housing areas, hospitals and schools are closely guarded: they often look like fortified compounds. Each budget still allots less to black services than to white.

On the economic front, the govern-



Onwards to siege

ment retreats from the relative liberalisation of the 1970s and moves towards greater state control. Investment falls not so much because of foreign sanctions as because white South African managers increasingly look only to the short term. Wage and price controls become tougher. The export of private-sector dividends is stopped and import controls introduced. Political pressure increases public spending on law and order and on containing, though not reversing, black urbanisation. Budget discipline collapses. Large deficits and rampant inflation result.

In time, the increase in lawlessness and the decline in morale among whites feed on each other. White emigration accelerates, house prices plummet and white suburbanites see blacks camping in neighbouring fields and on the verges of their streets. Soon they squat in houses vacated by fleeing whites. The pressure of numbers overwhelms the whites as their schools, hospitals, social services are taken over by blacks.

Local power broking between the white authorities and local black leaders becomes frenetic. Civilian ministers are shorn of authority, which passes to the military members of the state security council and provincial commanders. The Zulu leadership in Natal presents the provincial authorities with an ultimatum on a tripartite administration, as fore-

shadowed in the 1983 Buthelezi commission report. Protection is offered to white and Indian areas, but only in return for a transfer of provincial power in Natal to a Zulu-dominated cabinet. The government in Pretoria is powerless to stop such a deal, since it cannot transfer troops from other regions. Lawlessness in Natal none the less continues as Zulu factions battle for supremacy.

This has a knock-on effect in other provinces. Widespread unrest in the Eastern Cape leads to mass migration of whites towards Cape Town. Port Elizabeth falls to black leaders in bitter contention with Coloured (mixed-race) groups. Cape Town whites and Coloureds join forces to resist any encroachment towards the peninsula of black squatters swarming across the Cape Flats. They reach local deals beyond the authority of Pretoria. There is talk of partition, with the Cape as the “last laager”.

Transvaal and the Orange Free State, heartlands of Mr Botha's Afrikaners, remain intransigent, plunged in a long terrorist civil war. A string of concessions by the security authorities cannot restrain undisciplined bands of blacks, who periodically loot white shopping centres and sabotage office blocks, factories and public utilities.

The degeneration into anarchy is slow but inevitable. Pretoria, at first constrained by militant right-wing white opinion, suspends all democratic forms rather than concede the demand for a universal national franchise. Eventually, the state security council takes on the character of a committee of national security, disregarding white ministers but negotiating with Coloured and black leaders according to their ability to command allegiance in the townships. Whites find themselves weaker as blacks are invited, ever more desperately, to help re-establish public order. Civil rights are not restored but are further eroded as co-opted blacks struggle to hold their positions against rivals. The regime proves highly unstable, vulnerable to military coup and counter-coup, often in collusion with black guerrilla leaders.

South Africa, it might be said, becomes no different from a dozen other modern African countries.

State of Siege

No plausible model offers peace, freedom and plenty in South Africa. Our second, slightly more optimistic, model contains many features of the first. It assumes continued endemic unrest in the townships. The relaxation of influx control leads to swift urbanisation, and with it a breakdown in the authority of the present, relatively responsible, black leader-

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ship. Factionalism and tribalism increase. Sanctions and international ostracism are imposed with growing severity, though their effects are patchy.

The difference between Degenerative Collapse and State of Siege lies in the extent to which the white authorities can turn the not-quite-apocalyptic second option to their own advantage. In State of Siege the reforms which are put forward by President Botha in this August of 1985 succeed at least in sustaining a centrist white consensus.

Though the far right is reinforced in its opposition, white Progressives and enlightened Afrikaners find enough common cause to maintain a rough consent for the policies of the "gradualist" wing of the National party. Links are strengthened with Coloured and Indian politicians. South Africa's political establishment does not put up the shutters and turn in on itself. At first it remains open to debate and policy innovation. Some blacks are persuaded, or bribed, to cooperate in the President's Council and in other consultative institutions. Hope is kept one step ahead of disillusion.

Drawing strength from such support, Mr Botha takes greater risks with his National party caucuses. He continues to stage highly-publicised clamp-downs, arrests and bannings to monitor and disrupt the black leadership and sustain white morale. But he keeps the police on a tight rein, eventually bringing in a tough but pragmatic army general as head of internal security. Better recruitment and training help to ensure that an increasingly non-white security force can be maintained in all but the worst trouble spots. In 1985, South Africa has been spending a smaller proportion of its gnp on defence (4%) than almost any other African country. In 1986-90, it finds itself affording much more.

No great disorder

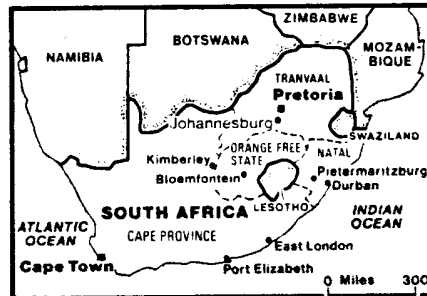
On this model, black groups remain so infiltrated that they find it hard to stage nationwide or co-ordinated protests. Strikes prove relatively easy to break, aided by the sudden labour influx to the towns. Terrorism becomes more widespread, yet is curtailed by the restraint which continues to infuse South African black leaders and by the ease with which the security forces nearly always manage to monitor it.

Meanwhile, little quarter is shown to non-violent dissent. Press censorship is extended. Cultural and intellectual life is anaesthetised. Foreign correspondents are regularly expelled and little concern is shown for high rates of English-speaking emigration. Liberal white South Africans, trapped in their tacit or open alliance with the Nationalists, protest at the

regime's illiberalism but to no avail. The government rather welcomes foreign protest as a foil against its right-wing critics at home.

The appearance of a nation under siege disturbs white businessmen, whose recent courting by Mr Botha proves short-lived. As in the previous model, the government responds with a package of protectionist and interventionist measures. However, as long as the authorities can show that they are able to contain public disorder, confidence is not seriously undermined. Mineral exports to America, Europe and Japan remain buoyant. Food shipments to the ever shambolic economies of the rest of southern Africa actually increase. South Africa's growing insulation from world finance is welcomed by many Afrikaners because it reduces their reliance on imported capital and talent. Since only a tiny fraction (less than 5%) of new fixed investment is foreign-owned, industrial growth is not drastically reduced.

All this has a beneficial protectionist effect in the short run—the only period



that survival governments care about. The reserve bank and the finance ministry find it easier to discipline the economy and control cabinet overspending (except on defence). Entrepot markets develop through Swaziland and other neighbouring black states, binding them more closely to South Africa. These states are used by South Africa as surrogates. It barter with them for security, trade and international recognition. The siege economy extends to all of southern Africa.

The stability of the State of Siege model depends on the balancing abilities of the white leadership. The policy requires carrots as well as sticks, yet the carrots are not allowed to be so appetising as to endanger white control. Already the Botha government has co-opted Coloured and Indian leaders. Some time in 1986-90, it makes concessions to Mr Buthelezi, leader of the largest black group, the 6m Zulus: not full political rights but territorial grants, lucrative franchises, local autonomy.

As in the first model, the framework of classical apartheid withers away: the homelands policy, the sex laws, influx

control. De facto segregation remains (now called "planning control") to try to keep blacks out of white districts, schools and hospitals. In the State of Siege model, this withering of apartheid is a useful counter to black militancy. It entices an increasing number of "system blacks" into tacit collaboration, even though they occasionally have their smart houses fire-bombed.

Fewer votes, not more

The government's most difficult problem is how to grant all these concessions without bowing to the ultimate black demand of one man, one vote. So, rather than extend national voting rights to blacks, it steadily qualifies such rights for whites. Pressure mounts on the president to postpone the next general election (due in 1989). The parliament, to which a partly boycotted black chamber is added, declines into insignificance. The government proposes that all groups should exercise their democratic rights within their own areas. A forceful policy of local autonomy is pursued, with local councils, some even multiracial, enjoying lucrative indirect tax powers.

Homeland, regional and local authorities are asked to send locally-elected representatives to a new confederal parliament, presented to the world as the acceptable face of multiracialism. Like most South African constitutional reforms, it half-works. The presidential succession is decided by a cabal on the basis of a confederal electoral college, on which whites, Coloureds, Indians and blacks are all represented. This confederalism is so organised that whites keep their hands on the important levers of power through the mostly-military state security council and its bureaucracy. This would remain the case, even were a compliant black one day to be "elected" as state president.

Under the State of Siege model, South Africa's political life, after a bout of innovation, becomes once again introverted. Government is based on continued military strength, on the containment of dissent and on ad hoc power-broking with local councils and interest groups, including black ones. The white elite continues in central command, but with constant judicious co-optation.

For 300 years, Afrikaners have clung to their African foothold by such pragmatism. A State of Siege regime may prove more authoritarian than classical apartheid. It would also be less dogmatic. Like our first model, it would be far from unique; but it could be more acceptable to the outside world. Authoritarian regimes are unpleasant. They are not ostracised for being so, and can continue in power for a long time.