

PART 5

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Confidential Filing

The Brandt Commission 1983

Economic Policy

In folder attached: Facing One World

Part 1: Oct 79

Part 5: Feb 83

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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

4 September 1990

Thank you for sending me the text of your remarks on development issues at the Aspen Institute meeting. It was very helpful to have them, and I am sure they will be of interest to the Prime Minister too.

C. D. POWELL

Sir Shridath Ramphal, A.C., C.M.G., Q.C.

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Sir Shridath Ramphal

4-9  
#1, 188 Sutherland Avenue  
London W9 1HR

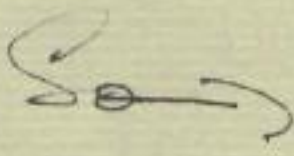
31 August 1990

Mr Charles Powell  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1

*Dear Charles,*

I promised the Aspen Institute to send them the text of my remarks on development issues at Bob McNamara's Working Group during the 40th Anniversary Symposium. I thought I should send it as well to a few others on whose friendship I might presume.

With all good wishes.



Shridath Ramphal

Encs:

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RETURN TO SAN FRANCISCO

SHRIDATH S RAMPHAL

Statement on Development to the Aspen Institute  
40th Anniversary Symposium  
Aspen, 4 August 1990

RETURN TO SAN FRANCISCO

Aspen Institute 40th Anniversary Symposium

Working Group on International Issues:  
Social and Economic Development of Developing Countries

Introductory Statement by Shridath S Ramphal

4 August 1990

Yesterday in Caracas, President Carlos Andres Perez of Venezuela and former President Julius Nyerere of Tanzania together launched the Report of the South Commission: 'The Challenge to the South'. The note on the back cover adequately sums up the subject of the Report: 'the struggle to overcome poverty and improve the quality of life for the three-fourths of humanity living in the developing countries - the South'. I hope you will read it. I start my remarks this afternoon with one short passage from its very first Chapter and its closing words.

The South's vision has to embrace the whole world, for it is part of that world. It cannot isolate itself; nor should it wish to isolate itself from the rest of the world. On the contrary, the South seeks an undivided world in which there would be no 'South' and no 'North'; in which there would be not one part developed, rich and dominating, and the other underdeveloped, poor, and dominated. The South's goal is a world of equal opportunities in which criss-crossing lines of interaction - political, economic, social, cultural, scientific - may sustain global interdependence; in which nations in their variety would work together in pursuit of jointly agreed goals; in which peace, security, and dignity would be the birthright of all persons and all peoples; in which all can take advantage of the advances of science; and in which the world's resources may be prudently used to satisfy the needs of all and not merely the narrow self-interest of a few.

The closing words of the Report are these:

In the final analysis, the South's plea for justice, equity, and democracy in the global society cannot be dissociated from its pursuits of these goals within its own societies, commitment to democratic values, respect for fundamental rights - particularly the right to dissent - fair treatment for minorities, concern for the poor and underprivileged, probity in public life, willingness to settle disputes without recourse to war - all these cannot but influence world opinion and increase the South's chances of securing a new world order.

The question those passages - and, indeed, the whole Report - poses is whether the pursuit of that vision is going to be a struggle: a struggle against a North that adopts the vision - but only on Sundays - or worse, rejects it outright as irrelevant humbug; or, alternatively, whether it will be a shared vision and its pursuit a common human purpose. That is the central question underlying the discussion of this Working Group on issues of social and economic development in the developing world. Without taking too broad a sweep - though a broad sweep is surely allowable on the 40th Anniversary of The Aspen Institute - this question (with its bearing on the lives of most of the world's people and, in the end, on all our lives) may well be one of the central questions of our time - even if it did not make the agenda at Houston or, for that matter, surface in the presentations on international issues from the United States, Japan or Europe this morning.

But this must be on our human agenda for a very practical reason - whatever code words we use, like 'interdependence', to lessen the tensions the real issues set up. Those who suffer, who are hungry, who are jobless, who have no glimpse of betterment, much less of prosperity, who sense a widening gap between themselves and those who are doing well - among them the more than one billion 'absolute poor' of whom you, Mr Chairman (Robert McNamara) spoke with such understanding and sensitivity recently at the Africa Forum in Lagos: they all know the ugly truth of their reality; and, in the wider world, they are the great majority. We are talking (in terms of the whole developing world) of 4 billion out of 5-1/2 billion people world-wide; but let us not forget how yesterday's discussions (on United States's domestic issues) reminded us that the poor have their counterparts in the rich world as well. In this commemorative gathering, all of us, from rich and poor countries alike, who espouse the cause of international cooperation are to some extent custodians of their future. If we cannot offer responses to the essential challenge these realities pose, what can we expect of others, including Governments?

Prime Minister Michael Manley of Jamaica was, with me, a member of the South Commission: a much evolved Prime Minister, one who has had the courage to make the hardest of all adjustments - the intellectual and political ones, to admit mistakes and try new policies. At Kuala Lumpur last October, speaking to Commonwealth Heads of Government (among whom, of course, was Mrs Thatcher), he drew attention to the real predicament facing many developing countries. He said that over the last three to five years, developing countries had undertaken sweeping structural reforms in line with the policies commended to them by institutions such as the World Bank and the IMF. They had adopted a more market-oriented policy stance; cut back on the operations of government-owned enterprises; reduced budget deficits and money creation; adjusted exchange rates and liberalised imports. Yet, he said, after all these changes, they were still waiting for 'recovery'. How long would their people wait? In the absence of

growth, would governments be able to sustain these changes in policy? Is the policy package the right one, after all? What more could be done to ensure real recovery, if continuing frustration is not to undermine the whole reform process?

As we have acknowledged in the South Commission's Report, extensive state intervention, administrative allocation of scarce resources and control of key commodity prices have often not achieved their stated objectives; on the contrary, they have resulted in a misallocation of resources and in economic inefficiency, imposing a dead hand on the economies of many developing countries. Transparent and predictable economic frameworks are necessary for market signals to work; prudent fiscal and monetary policies are needed to underpin such frameworks; and open trade regimes must provide an anchor for competitive economic behaviour internally and externally. For the greater part, today, all this is common ground; there has been a sea change in economic perception and practice all over the developing world, and many countries have gone far down the road of reform. The problem is that their reform efforts are in danger of being dissipated in the absence of real international support; and the perceptions themselves and their translation into practice of being called into question.

In asking questions, Michael Manley was not asking for arrangements to accommodate inefficiency or to make one part of the world pay for a refusal by others to be prudent and sensible. Rather, he was asking whether the immense advances in understanding about how the world economy works and greater knowledge of the impact of change on the development process could not be better used - more intensively and effectively used - to create real opportunities for those developing countries that had the determination to get their economic strategies right. He was asking not merely how the rich could help the poor, but how the self-help of the poor could be given a better chance of success through a world economic environment that consciously make space for it - propitious space. It is valid question; it needs an answer today - an answer that must inevitably take account of the wider related issue of the impact of global, political, and economic change on the development process. How can such an answer be other than positive?

We recognise, for example, all of us, that a national society cannot be at peace if power, privilege and prosperity are the prerogatives of only a few, with deprivation, degradation and despair the lot of the many. Do we think our world society can be at peace when such disparities prevail within it, such yawning disparities between a few who prosper and the great majority trapped in poverty? For those entrapped, but in truth for all, it cannot really be a time of peace. In fact, far more people suffer today from economic rather than military insecurity: those who die prematurely and others whose lives are blighted by the same deprivations and deformities that go hand in hand with military conflict. Pat Moynihan may talk of 'peace' being the real peace dividend. But where does this leave the poor, for whom in this



sense, it is always war-time.

Moreover, poverty diminishes humanity both directly by taking lives and indirectly by making life more unendurable for larger numbers. In terms of the prospects for real peace in the next century, few factors may be more important than the population explosion generally, and the urban explosion in particular, both of which will be an explosion of poverty. In a Mexico city of 24 million, for example, none will suffer more than tomorrow's children. Already, the phenomenon of street children, some 30 million world-wide who know no home but the street, warns us that we are condemning millions more to life as primitives at the centre of vast cities - mainly in the developing world - depriving them of any real prospect of a tolerable existence.

That prospect has to lie in real development, in reducing the gross disparity between prosperity and poverty. This is the essential challenge of the Papal assertion that 'development is the new name for peace'. Meeting it requires a world economic environment that offers something more than that the rich will grow richer at a somewhat slower pace and that the poor will not actually get poorer. It means looking towards more equitable world economic relationships to ensure that the gap, far from enlarging, begins to close. It means that the world economy for the benefit of all the world's people. This clearly is not happening. The world economy is not even being managed with that other three-fourths of the world in mind. As Houston so clearly, and not too subtly, implied: the few have become more than the many to borrow Tagore's phrase of 100 years ago.

Today, for many of that 4 billion, adverse economic circumstances and changes in basic policy are posing enormous adjustment problems. Developing countries accept the need for adjustment, but are concerned that the design of adjustment policies still does not pay adequate attention to the complex and different economic situations of their countries. A wrong specification of policies discredits the new perceptions; the policy mix needs dispassionate consideration and authoritative appraisal. It too often has the flavour of doctrine; and it will not be the first time that today's fashion becomes tomorrow's heresy. We all know how difficult the industrial countries themselves found it to restructure their industries (for example, in agriculture, and in the face of competition from developing countries in the area of labour intensive manufactures) - despite fairly well-established markets, and a social welfare system that provides a safety net to those affected by adjustment. Is it surprising that developing countries operating under much more difficult domestic circumstances - with poorly developed markets, extensive unemployment, low wages, and no or marginal welfare systems - should find the transition in policies a source of deep social dislocation and unrest?

And more is involved than making technical mistakes on the economic front. The social cost is high; and falls unevenly on the poorest and weakest - women and children specially. And,

ironically, what the resulting massive disaffection means in political terms, is that the heaviest casualties of inappropriate adjustment policies (or, more accurately, inadequate international support for appropriate adjustment policies) will be precisely those developing countries that have sustained democratic structures over the years and continue to live by them with some pride in an age which is itself proud of our major gains for democracy.

I have come to Aspen directly from the Caribbean - from Trinidad and Tobago during the days of recent crisis, and from Jamaica, where Caribbean leaders have been counting the costs of that crisis for the entire region. It is not without significance that the pseudo-religious fanatics who seized the Prime Minister and Cabinet of Trinidad and Tobago did so by simply walking into the Parliament Chamber, having over a period of several weeks made themselves familiar sights in the vicinity of Parliament by exercising their legitimate right to picket and demonstrate against the Government's social and economic policies. Nothing excuses such acts of terrorism; for, that is what they were. But let us not be overwhelmed by self-righteousness. The social and economic conditions endured by even a middle income country like Trinidad and Tobago, undergoing a major structural adjustment programme in the interest of economic recovery, do create the political environment in which fanaticism can pass for radicalism and evil can wear the mask of redressing wrongs.

If democracy is to be sustained in regions like the Caribbean - and the same is true of many other parts of the developing world - freedom will have to be harnessed to an ethos of constitutionalism; but the rule of law will itself lose its ethical moorings if it becomes synonymous with sustained deprivation and with the sense of injustice it breeds. Freedom to go hungry, or be without shelter, or hospital services, or schools - or simply to be without, across the board - is not the stuff on which democracy thrives.

Without democracy, a people's potential for social and economic development cannot be fully realised; and without tolerable social and economic conditions and a vision of the future that makes hope plausible, democracy itself will be unsustainable - certainly in small societies and weak economies. We are right to be outraged by events like those in Trinidad and Tobago; but a measure of self-questioning beyond the Caribbean would not be out of place. Certainly it will be hugely ironic if, in the end, Western style economic recovery programmes were to bring down democratic governments with market economies in the developing world - in much the same way that flawed centrally planned economic systems brought down authoritarian regimes in the command economies of Eastern Europe.

As commodity prices remain at historically low levels; as trade regimes of industrial countries continue to discriminate against developing country exports; as interest rates eat away the precious foreign exchange so hard-earned, just to service

debt - it is as if the curse of Sisyphus, rolling a stone eternally uphill and never making it - has been placed on whole societies.

It is true that there have been some positive developments:

- The establishment of the Structural Adjustment Facility and the Extended Facility;
- The 50% increase in IMF quotas;
- The 80% increase under the General Capital increase of the World Bank and large capital increases in the African and Inter-American Banks that will allow increased lending;
- Agreement on IDA-9 to maintain its lending in real terms to low income countries;
- The 'Brady' initiative and the World Bank's facility to support commercial debt buy-back operations;
- The Toronto Summit decisions on official debt cancellation for low-income countries;
- Some developments in the Uruguay Round on selected tropical products.

Yet the rich seem to take back with one hand what it offers with the other. There continues to be a substantial net transfer of resources abroad by developing countries - amounting to some \$115 billion during 1984-88, with debt related net transfers in excess of \$140 billion. Almost unbelievably, there has been a reduction in real aid receipts by developing countries during 1987-89, markedly below the levels of 1984-86. We have actually gone backwards, with the United States of all countries leading the retrogression. And aid as such apart, there continues to be negative or even nil net flows of long and medium term export credits to developing countries. There is still only limited scope for access to international capital markets for many of them. And with all the public declamation about open trading systems, there is increasing protection against the exports of developing countries through such euphemistic mechanisms as 'voluntary export restraints', 'organised marketing arrangements' and abusive use of allowable mechanisms such as countervailing and anti-dumping duties.

And now there are new challenges arising from the deep and profound political and economic changes taking place in the world. The end of the Cold War has led to widespread and, I believe, quite legitimate hopes for a 'peace dividend', and to the possibility that energies in industrial and developing countries will be released for real development. These hopes must be

given a better chance of fulfilment than present trends promise. There is some evidence, but still too little, of possible cuts in industrial countries' military expenditures from their projected levels. Reduced pressures on the United States budget will help to improve the global economic climate. Reduced pressures on the budgets of industrial countries generally could create room for increased aid for development. Reduced regional conflicts, those at least which are rooted in superpower rivalry, should enable developing countries to devote more resources to development - although the recent wholly deplorable acts of aggression by Iraq against Kuwait - one of the truly small states of the world that has used its oil resources wisely and played a responsible role in world affairs - is a matter for both sadness and anger.

Such setbacks notwithstanding, all these possibilities flowing from the end of the Cold War should bolster hope; but much will depend on whether there is a rise in the world of other sources of conflict. New freedoms are unleashing new tensions, and new tensions can lead us away from an environment of peace unless we rise to the challenge mentioned by Olara Otunnu this morning of effective international peace keeping under the rule of enforceable international law.

Conversely, however, a significant demand on global savings will emerge from reconstruction in Eastern Europe, including the Soviet Union. Global interest rates may well remain excessively high. That is bad news for the many developing countries with large overhangs of debt or those whose export commodities have been historically sensitive to high interest rates. And, of course, on the quantitative side the prospect of a diversion of western aid and private credit and investment flows to Eastern Europe would aggravate an already perverse situation regarding resource flows to developing countries. Western strategy is to head off calls for additionality by assuring developing countries that a diversion of resources is not likely; but, with conditionality already becoming unacceptably high and inadequate resources being made available to international financial institutions, that is not how it seems to many developing countries.

In the post-war period up to the 1980s, there was a wide recognition that economic development was a common global purpose. While a constructive and effective North-South dialogue was never established, development cooperation made some notable advances in, for example, the establishment of a substantial aid programme, the expanded operations of the World Bank and the setting up of new affiliates to it such as IDA and IFC, the willingness to set up new facilities in the IMF to meet new needs, the addition of a Part IV to the GATT and the establishment of UNCTAD. In recent times, however, no sustained progress is being made in securing coordinated efforts to solve the massive and increasing problems of poverty and under-development. There is virtually no dialogue on development. For western industrial countries, this is a time that could easily be wasted basking in a warm glow of complacency that the rest of the world now wishes to follow your political and economic example. Yet, as

the Report of the South Commission argues convincingly, it is not a time to be deaf to the cries for help from the developing world, or to treat the issues of development, and the now related ones of environment, in a parochial and self-serving manner. It is not the tradition of Western civilisation to turn aside from the rest of the world. It is not the political or ethical heritage of this country to turn your back on the poor and the weak and to fail to recognise that their condition is relevant to your own.

Fortunately, there are signs that some OECD countries realise the danger of indifference - particularly on the environment front. The trouble is that to the extent that the growing environmental sensitivity of the North is in fact spilling over into development considerations and North-South relations, it all too often takes the form of even more stringent 'environmental' conditions attached to aid. Some of this is genuinely well-intentioned, is designed to produce better projects, and when associated with generous aid flows is accepted by most developing countries. But there is growing stridency and self-righteousness in some of the attempts to influence policy - attitudes which are particularly invidious when they come from countries where wasteful lifestyles and massive pollution have already contributed to serious depletion of the world's ecological capital - and seem all too likely to continue. 'Don't do as I do: just do as I say' is how some of this comes across.

Let me end, therefore, by returning to the question with which I began, namely, whether the vision of a better, more humane, and habitable world - a vision shared by many of North and South alike, and by all of you here, a vision for which the Aspen Institute has laboured these 40 years - is one we shall pursue together in the community of nations, or whether it will remain a mirage forever receding from our collective grasp; in the end, from our final grasp. It is a moment, therefore, of challenge; but it is also a time that holds out the most astounding opportunities.

The 'post-war era' is finally over. War and peace need no longer dominate our global destiny. Human survival remains threatened; but we possess together all the means for ensuring acceptable social and economic conditions both in the developing countries and in our human society generally. What is needed is for bold and caring spirits to articulate an ethic of progress into the 21st century which acknowledges that the 'scourge of poverty' is every bit as threatening and unacceptable as the 'scourge of war' - that 'peace and security' has a further reach than we one time supposed. The Aspen Institute was established 5 years after the UN's beginnings at San Francisco. At the start of the 1990s we need to up-date the internationalist vision glimpsed in 1945 and allow it to inform our global responses to the challenges of the present and the future as we now know them to be. It is time for the world in its newness to return to San Francisco. Where better to begin such a journey than in Aspen?



10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

2 August 1989

*File MM  
apc*

CAPITAL FLOWS TO DEVELOPING COUNTRIES

Thank you for your letter of 28 July about the report "Facing One World".

Dr. Leutwiler duly came to present a copy to the Prime Minister this afternoon. The Prime Minister said that she was astonished Dr. Leutwiler had put his name to it. Several of the proposals - compensation for environmental damage, doubling of aid, further new initiatives on debt - were very unhelpful. Dr. Leutwiler said cheerily that he had only brought it along as an excuse to have a talk with the Prime Minister. He had been put under extreme pressure to sign it by Helmut Schmidt but agreed that many of the proposals in it were well wide of the mark. That said, he was very worried about the debt problem, which he attributed principally to careless lending by banks. The Prime Minister and Dr. Leutwiler agreed that the report was probably best left on one side.

There was some discussion of South Africa. Dr. Leutwiler judged that the South Africans would succeed in re-scheduling their debt. It was very simple: the banks would not wish to lose their money, which was the only alternative. He spoke highly of the new Chairman of the South African central bank.

Dr. Leutwiler said that he very much shared the Prime Minister's views on the economic and monetary issues in the European Community. He regarded proposals in the Delors Report for a common European currency and a European Single Bank as entirely impractical.

I am copying this letter to Alex Allen (HM Treasury) and Myles Wickstead (Overseas Development Administration).

CHARLES POWELL

Stephen Wall, Esq.,  
Foreign and Commonwealth Office

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PRIME MINISTER

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## MEETING WITH DR. LEUTWILER

Dr. Leutwiler is coming to see you on 2 August. His purpose is to present you the report "Facing One World" drawn up by an independent group of eminent persons under Helmut Schmidt's chairmanship. The report itself is in the folder.

As the FCO letter says, the report is a bit of a mixed bag. Some of the recommendations are rather unhelpful, and it's a bit of a surprise that Dr. Leutwiler has put his name to them. For instance:

- it favours the idea of paying 'compensation' for environmental damage;
- it puts all the burden of providing additional funds for the developing countries on the backs of governments rather than commercial banks, thus substituting official lenders for private lenders;
- it calls for a doubling of aid, with automatic mechanisms to ensure future increases;
- it calls for 'new initiatives' on debt, when we had an excellent one only last year.

You might take Dr. Leutwiler to task on some of these points.

The meeting is also an opportunity to talk a bit about South Africa. You could ask him about the negotiations between the South African authorities and the commercial banks to reschedule the debt which falls due in 1990, and how difficult he expects them to be. There is a campaign of growing pressure on British banks not to take part in the rescheduling: and there is likely to be an attempt at CHOGM to impose financial sanctions on South Africa. Does he think the rescheduling will be successfully completed nonetheless?

You might also tell him about your meetings with du Plessis and de Klerk, and give your impressions. You might ask how he expects the elections to come out: Robin Renwick expects the far right to do well. It would be helpful if those conducting the negotiations on rescheduling could constantly be on at the South Africans about the need for very early progress on release of Mandela and constitutional reform after the elections.

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C.D.P.

(C. D. POWELL)

31 July 1989



**FACING ONE WORLD**

Report by  
**an Independent Group on Financial Flows  
to Developing Countries**

Chairman  
**Helmut Schmidt**

1 June 1989

## FOREWORD

The 1987 meeting of the 7th session of the United Nations Conference on Trade and Development (UNCTAD) in Geneva, welcomed a proposal from the Japanese government to establish an independent group of experts "to examine ways and means to encourage the flow of financial resources to the developing countries." Supported by the UN-Secretary General, Javier Perez de Cuellar, and on invitation from the United Nations University in Tokyo, the group was formed in 1988 and subsequently met in Tokyo and Washington in April and May, 1989.

The group included Abdul Aziz Al-Quraishi (Saudi Arabia), Bernard T.G. Chidzero (Zimbabwe), Bernard Clappier (France), Janos Fekete (Hungary), Fritz Leutwiler (Switzerland), Robert McNamara (United States), Isamu Miyazaki (Japan), D.W. Nam (Korea), Olusegun Obasanjo (Nigeria), Lord Roll of Ipsden (United Kingdom), Jesus Silva-Herzog (Mexico), Pierre Elliott Trudeau (Canada), Manuel Ulloa (Peru), Paul A. Volcker (United States), Nitisastro Widjojo (Indonesia) and myself.

For the last five years the net transfer of funds to the developing countries has been negative. This reverse flow of funds has severely aggravated the critical difficulties faced by many developing countries and, in particular, the highly indebted and the least developed countries. Even assuming that our proposals were to be accepted and swiftly implemented, it will take a number of years to reverse the negative flow and to increase significantly the volume of funds to the developing countries. Given the desperate plight of many developing countries, it is imperative that we begin work on this task immediately.

Many of the political leaders in developing countries have now acknowledged their past mistakes and are engaged in efforts to correct them. It is time for the political leaders and bankers in creditor countries to acknowledge their mistakes and take corrective action. Today, more than ever before, the developing countries need help.

Our proposals are contained in Chapter III. Chapter II gives an analytical outline of the present situation and flow of funds. In the opening chapter we have briefly described the need for a global approach to these complex problems. The group's terms of reference clearly excluded a thorough examination of the inter-related problems of global population growth, poverty, malnutrition, illiteracy, injustice and environmental degradation which haunt large parts of the world. Our deliberations focused, in a sober and unambitious manner, on the steps which we consider necessary to increase financial flows to developing countries. We did not embark upon a grand design for a new global economic order. Nor did we explore the question of institutional changes in the financial and monetary fields such as, for example, improving the efficiency of existing institutions, like the International Monetary Fund (IMF) and the World Bank, by merging them.

Our proposals are intended to influence governments and policy-makers in industrialised as well as in developing countries, in countries with different economic and social systems and in the international financial institutions. We ask them to assess our proposals and then take action. Carrying out our suggestions will require a high degree of global co-operation which will, in turn, contribute to and strengthen the dialogue between the North and the South.

We have put forward these proposals at a time of important strategic change in the relationship between the major powers--the United States, the Soviet Union and the People's Republic of China. The normalisation of their relations opens up an avenue for converting military expenditure into productive purposes and for integrating into the world economy those countries which now remain outside.

In addition to our gratitude to the Japanese government for supporting our meetings, we express our confidence in Japan's ability and responsibility, by its example, to expand the flow of funds from the industrialised to the developing countries. Time is running short. If we are to reverse the present direction of financial flows Japan's leadership will be crucial. The Federal Republic of Germany - the other most important surplus country - should follow suit, as should the OECD countries as a whole.

The members of this independent group come from many parts of the world and from different political, economic and social systems. All 16 members have agreed to support the basic assessments of this report (if not every single word) and the fundamental thrust of its recommendations. We have expressed our unanimity by our signatures.

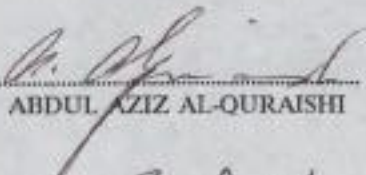
Hamburg, June 1989

Helmut Schmidt

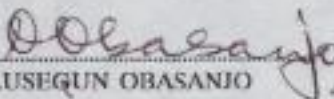
INDEPENDENT GROUP ON FINANCIAL FLOWS




HELMUT SCHMIDT



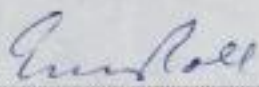
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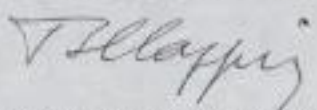
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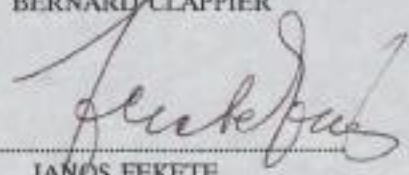
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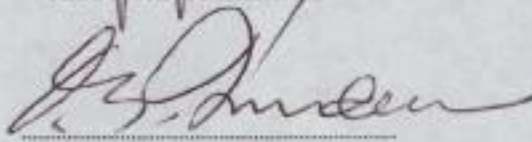
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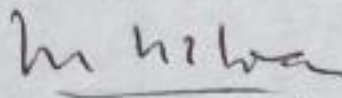
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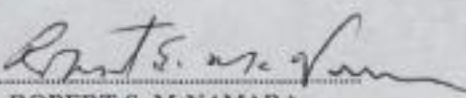
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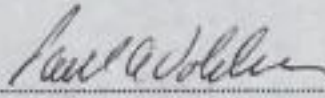
FRITZ LEUTWILER



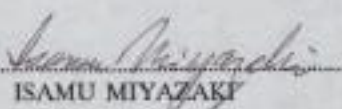
MANUEL ULLOA ELIAS



ROBERT S. McNAMARA



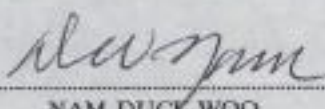
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## TABLE OF CONTENTS

	Paragraph	Page
FOREWORD		i
I. THE NEED FOR A GLOBAL APPROACH		3
- The global setting	1,2	
- Upheavals in financial markets	3	
- Growing indebtedness	4	
- Situation of developing countries	5,6	
- Problems of industrialised countries	7	
- Centrally Planned Economies	8	
- International co-operation	9	
II. THE PRESENT STRUCTURE OF FINANCIAL FLOWS		6
- Main direction of financial flows	10	
- United States budgetary deficit	11	
- Decline of flow of funds to developing countries	12	
- Foreign debt of european CMEA countries	13	
- Financial flows from OPEC	14	
- Foreign investment	15,16	
- Official Development Assistance	17,18	
- Situation and debt structure of sub-Saharan Africa	19,20	
- Origin and development of the debt crisis	21-23	
- Situation of commercial banks	24-28	
- New challenges for the banking system	29,30	
- New lending	31	
- Debt and the IMF and World Bank	32,33	
- Net flow from developing countries	34	
- Structure of debt crisis	35	

	Paragraph	Page
- Baker, Brady initiatives	36	
- Adjustment processes in developing countries	37	
- Capital flight and brain drain	38	
- Military expenditure	39,40	
 III. THE WAY FORWARD - RECOMMENDATIONS		 19
- Growth and world trade	41	
- Stability of exchange rates	42	
- Abolition of trade barriers, free trade zones	43,44	
- United States, Japan and Federal Republic of Germany	45-47	
- Soviet Union, CMEA, China	48,49	
- Disarmament	50	
- Economic environment in developing countries	51	
- Financial needs of developing countries	52	
- Increase of Official Development Assistance	53	
- Special assistance	54	
- Assistance for sub-Saharan Africa	55	
- Drug problem	56	
- New approach to the debt problem	57-60	
- Advisory group on conditionality	61	
- Voting rights	62	
- Beyond the debt issue	63	
- Private investment	64	
- Trade, debt, and development	65	
- Oil price	66	
- Responsibility for progress	67	
 ANNEX A: DEFINITIONS AND EXPLANATIONS		 30
 ANNEX B: STATISTICAL TABLES		 36
 BIOGRAPHICAL NOTES ON THE MEMBERS OF THE GROUP		 57

## I. THE NEED FOR A GLOBAL APPROACH

1. By the end of the century six billion people will share a planet faced with growing global challenges. Yet the continuing high rates of population growth, widespread poverty, accelerating environmental hazards (in particular the dangers of climatic changes) and proliferating drug abuse remain largely unaddressed.

At the same time, the growing integration of the world economy greatly complicates the appraisal and management of national economic policies. The inter-relationships among trade, debt, growth, investment, capital flows, interest rates and foreign exchange rates often dominate economic activity, yet they are seldom either understood or recognised. Individual nations continue to emphasise internal or, at best, regional political and economic objectives, preferring crisis management to long-term strategic action and thereby, often adding one scarcely manageable risk to another.

In these circumstances there is an obvious need to reach a consensus--a **comprehensive strategy**--on a global approach to economic, social and environmental problems. That approach will need to recognise the potential of market economies and take account of the differing needs of individual nations. But it will also need to recognise that, in today's global economy, the success of each nation is related to the success of the whole.

2. Although **One World** is seldom recognised in day-to-day political management, in many areas it is **already a reality**. There is only one global environment; only one global financial market - one bond market, one market for credits, one international currency market, and one stock exchange, all operating on a 24-hour basis.



3. But since the breakdown of the Bretton Woods system of fixed parities the emergence of this global financial market has coincided with **serious fluctuations in exchange rates, huge deficits in national budgets, imbalances in trade and current accounts and upheavals in equity markets.**

4. Against the background of floating exchange rates and partly as an unforeseen result of two oil price shocks in the 1970s, **the level of external indebtedness** in a number of developing countries skyrocketed, culminating in a crisis of finance. As that crisis developed, the world's largest economy, the United States, became the largest borrower. **Consequently the flow of financial resources has been reversed.** The net flow is now from the less developed countries towards the industrialised countries and within the Organisation for Economic Co-operation and Development (OECD)<sup>1</sup> towards the United States.

5. In spite of some efforts to maintain the, albeit, modest and inadequate level of official development assistance (ODA)<sup>2</sup> granted to **developing countries, per capita gross national product (GNP)** in a large number of these countries **has fallen**, stretching human and political tolerance to the limit. Developing countries' share in world trade decreased dramatically; terms of trade for non-oil commodities hit the lowest figure for decades.

6. **Over the last 20 years the gap between industrialised and developing countries has widened enormously.** Between 1965 and 1987, the real per capita GNP (calculated on the basis of 1987 dollars) increased from \$140 to \$270 for low

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<sup>1</sup> See Annex A.

<sup>2</sup> See Annex A.

income countries, from \$980 to \$1,680 for middle income countries and from \$8,820 to \$14,550 for industrialised market economies.<sup>3</sup>

As things now stand, there is every prospect that in the coming years the gap will widen still further.

7. Despite both a period of steady growth in the **industrialised countries** and an increase in the volume of world trade, these countries, too, **have not been free of problems**. Since the two oil price shocks, real economic growth has been slower and many of the industrialised countries have been suffering from high long-term unemployment, particularly in Europe. Protectionism is growing and could easily escalate into trade conflicts between emerging trading blocs. Moreover, recent concern about an international re-emergence of inflation has made growth prospects more uncertain.

8. **Centrally Planned Economies<sup>4</sup>** (CPE), with the exception of the People's Republic of China, **have also suffered from low growth rates** and most of them continue to remain outside the organisational structure and practices of the world economy.

9. These inter-related problems will not be solved without a long-term pooling of forces by all nations working together in a **spirit of genuine international co-operation**. In our judgement, such co-operation could open an avenue towards sustainable global economic growth and, in particular, could improve living conditions among the poorest within the family of nations.

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<sup>3</sup> See Annex B, Table 1.

<sup>4</sup> See Annex A.

## II. THE PRESENT STRUCTURE OF FINANCIAL FLOWS

10. Within the OECD countries the largest financial flows of recent years have been from Japan and the Federal Republic of Germany, the largest current account surplus nations, to the United States, the largest deficit country. At the end of 1988, Japan was the world's largest international creditor country (+\$300 billion) and the United States was the largest international debtor (estimated -\$490 billion); both figures include foreign investment.

11. Over the last decade the savings rate in the United States has been low, while the budgetary deficit has absorbed too high a proportion of these low savings. This has contributed to high real interest rates in the United States which have been above those in the Federal Republic of Germany or in Japan, thus helping to attract their surplus savings to the United States.

The huge volume of these flows and their volatility has increased exchange rate fluctuations, exacerbating the danger of financial market disruption.

12. Absorption by the United States of a large part of international savings and high interest rates have added to the problems of the less developed countries. The flow of funds to developing countries has declined considerably at a time when these countries are already incumbered with the heavy burden of debt servicing. Between 1982 and 1988 net external borrowing of less developed countries fell from \$104 billion to \$26 billion, while non-debt creating flows (official transfers and direct investment<sup>5</sup>) rose by only \$7 billion over the same period

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<sup>5</sup> See Annex A.

(from \$27 billion to \$34 billion<sup>6</sup>). In some of the developing countries the flow of funds has become negative.

13. Additional demand for these funds comes from the European members of the Council for Mutual Economic Assistance (CMEA, also known as COMECON). The deterioration of their current accounts vis-a-vis the OECD countries has led them to increase borrowing in convertible currencies. Between 1981 and 1987 the outstanding foreign debt of European CMEA countries rose from \$95 billion to \$130 billion<sup>7</sup> (partly due to the appreciation of the Japanese yen, the German deutsche mark and the Swiss franc). Two of these countries (Poland, Romania) have had debt-servicing problems in the past and Poland's have since continued. Hungary, Poland and Yugoslavia are considered highly indebted countries, although Hungary has always met its commitments.

14. In the past, members of the Organisation of Petroleum Exporting Countries (OPEC)<sup>8</sup>, in particular the four high-income oil exporters (Saudi Arabia, Libyan Arab Jamahiriya, United Arab Emirates and Kuwait) were net lenders of capital, but in 1987, with the fall in oil prices, their current account surplus turned into a deficit of \$7.5 billion.

15. The world-wide pattern of direct investment reflects the overall flow of capital. Again it has been the United States which has been the most important recipient of foreign investment, receiving a disproportionate share of the total amount of direct investment by seven major industrialised countries (Sweden,

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<sup>6</sup> See Annex B, Table 3.

<sup>7</sup> See Annex B, Table 4.

<sup>8</sup> See Annex A.

Netherlands, France, United Kingdom, Federal Republic of Germany, Japan, and Canada). Since 1980 this share has risen still further.

16. Over the same period, **the flow of investment from industrialised countries to developing countries has fallen.** Between 1982 and 1986 net direct investment flows to developing countries halved (from \$20 billion to \$10 billion<sup>9</sup>), although they have since resumed some growth. However, direct investment has shifted from Latin America to Asia and flows into Africa remain low and are continuing to fall.

17. **Most donor countries have not yet achieved the goal** established by the United Nations General Assembly resolution 2626 of 24 October 1970, of **allocating 0.7 per cent of their GNP to ODA.** The average percentage of ODA in member countries of the Development Assistance Committee (DAC)<sup>10</sup> is only half this figure (0.35 per cent in 1986-1987), just as low as it was 10 years ago. Only a few countries (Sweden, Netherlands, Denmark and Norway) are providing substantially more aid and the two richest economies, the United States and Japan, are providing substantially less (in 1987 0.2% and 0.31%, respectively).<sup>11</sup>

During the 1980s the member countries of the CMEA significantly increased ODA in real terms, but the percentage of their GNP given as ODA is still well below the DAC average and their aid is mainly directed to less developed CMEA members.

Notwithstanding the deterioration of their balance of payments, the four high-income oil-exporting countries provided substantial ODA in the late 1970s and

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<sup>9</sup> See Annex B, Table 3.

<sup>10</sup> See Annex A.

<sup>11</sup> See Annex B, Table 5.

early 1980s. Kuwait and Saudi Arabia continue to give 1.2 per cent and 3.4 per cent (1987) of GNP as ODA.<sup>12</sup>

18. Most ODA is received by the low income countries (54 per cent in 1987). By regional distribution, sub-Saharan Africa<sup>13</sup> has been the largest recipient (31 per cent); South Asia 17 per cent; other Asian and Oceanian countries 21 per cent; Latin America 13 per cent; North Africa and the Middle East 17 per cent<sup>14</sup>. But taken together, **the less developed countries received no more ODA in real terms in 1987 than they did in 1980.** The increase in ODA from DAC members has not balanced the fall in assistance provided by OPEC.

19. Among the developing countries, the countries of **sub-Saharan Africa face unique problems** which require special attention. Average per capita GNP is declining and population growth is continuing to outpace economic and social advance.<sup>15</sup> Moreover, while 70 per cent of the population is dependent on the land for its living, land erosion is widespread and increasing at the rate of 8 million hectares per year. Sub-Saharan economics' heavy dependance on a single commodity or a narrow range of commodities is more precarious than in any other group of countries and they are more vulnerable to commodity price fluctuations and deteriorations in commodity terms of trade.

Africa is a continent in crisis. There is little reason to believe that current development programmes will reverse this situation.

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<sup>12</sup> See Annex B, Table 5.

<sup>13</sup> See Annex A.

<sup>14</sup> See Annex B, Table 6.

<sup>15</sup> See Annex B, Table 7.

20. The bulk of long-term debt of low income countries in sub-Saharan Africa is to official creditors (85 per cent). Between 1980 and 1985 net capital flows into this region fell from \$4.4 billion to \$2.1 billion. In 1987 they rose to just under \$3 billion. Most of these countries cannot be expected to participate in the financial markets.

The international community has recognised that debt-forgiveness is required in this region and that new capital inflows should mainly take the form of grants. At their Toronto Summit meeting in June 1988 the Group of Seven major industrialised countries<sup>16</sup> agreed on a menu of options for dealing with the debt of the poorest debtor countries, including partial write-offs, longer repayment terms and interest rate reduction. This approach was subsequently further refined by the Paris Club<sup>17</sup>, but debt service continues to exert a heavy burden.

21. A chain of events led to global economic problems and financial uncertainty. One factor was inflationary financing of the Viet Nam war and ambitious domestic expenditure programmes in the United States which undermined the stability of the dollar and its ability to support the international monetary system. The breakdown of the Bretton Woods arrangement and the ending of fixed exchange rates eliminated the disciplinary constraints under which countries were forced to adjust to balance of payments disequilibria. The dislocations associated with these changes helped to spark increased inflation in most countries.

Another factor was the two oil price shocks in 1973-1974 and 1979-1980. Prices peaked at 20 times the level of the 1960s, sending shock waves throughout the international financial system. Enormous surpluses accumulated in the current

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<sup>16</sup> See Annex A.

<sup>17</sup> See Annex A.

accounts of a number of oil-exporting countries with corresponding deficits in those of oil-importing countries. Large quantities of these surpluses were deposited on a short-term basis in Western commercial banks which, in turn, channelled them into medium and long-term credits, mainly to oil-importing countries. This procedure, labelled "**petrodollar recycling**," amounted in fact to a high-risk transformation of commercial banks' short-term liabilities into long-term loans. Ambitious borrowing was spurred by negative real interest rates, a result of more widespread inflation.

But the inherent danger of **roll-over credits** was either not understood or, at least, underrated by commercial banks, central banks and governments. Moreover, not only was the newly created credit process left largely uncontrolled, but with abundant liquidity available, continued financing was given priority without adequate regulatory supervision by the International Monetary Fund (IMF), the World Bank and creditor governments over the vital need for adjustments in debtor countries.

22. **Debtor countries should have taken measures to improve policy management**, to reduce oil consumption, to change the fiscal and monetary policy mix, to cut military expenditure, to trim the costs of uneconomic prestige projects and state companies, to fight corruption, to quell capital flight and to tackle the problems of widespread poverty. But these essential adjustments were by no means fully carried out. Furthermore, the **external environment developed unfavourably**, with slower growth in the industrialised countries, high interest rates and a deterioration in the terms of trade for the debtor countries.

23. As a result of the financial needs of extensive development projects in oil surplus countries, the **flow of petrodollars** into the banking system of the industrialised countries **dried up** by the early 1980s. At the same time the new



macro-economic policy mix pursued by the United States from the early 1980s onwards resulted in high real interest rates. **In August 1982 Mexico's inability to service its foreign debt touched off the debt crisis.**

24. **Commercial banks had accumulated an enormous stock of loans to less developed countries.** In 1982, for example, the external claims of major United States commercial banks on developing countries were double their capital base. Creditor banks were forced to recognise that a significant part of these loans would not be repaid on schedule or not repaid at all. At the start of the crisis even major commercial banks had to face the very real possibility of collapse.

25. **Since the onset of the debt crisis in 1982, creditor banks in the United States have gone some way towards rebuilding their capital base.** Over the four year period 1984-1988, total claims of United States commercial banks vis-a-vis Latin America declined from \$106 billion to \$95 billion.<sup>18</sup> Their average provisions against developing country assets are now estimated at 30 per cent.<sup>19</sup>

26. **Japanese commercial banks' exposure to the less developed countries has been less dramatic.** By 1987 appreciation of the yen had halved the domestic value of their dollar-denominated exposure. For most Japanese banks, Latin American debts today make up only 1 per cent of their total assets.

27. **A major problem for United States and Japanese commercial banks stems from the fact that tax laws in these countries discourage adequate provisioning against potential loan-losses.**

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<sup>18</sup> See Annex B, Table 8.

<sup>19</sup> See Annex B, Table 9.

28. Provisioning policy is much easier for **European commercial banks** where tax deductibility is allowed, as, for example, in the Federal Republic of Germany and France. As a result the level of provisioning against these debts is relatively high in these countries (50 per cent and 45 per cent, respectively).<sup>20</sup>

29. **But new challenges have arisen for monetary authorities and the banking system**, some of which are also related to the historical background of the debt crisis. International financial flows are now many times greater than international trade flows and now dominate foreign exchange markets. Because of the high degree of exchange rate volatility, these expanded financial markets could easily disrupt financial flows at any time, possibly leading to severe strains - and even disruption - of the global financial system. The stock market crash in 1987 illustrated such dangers.

The immediate worldwide reaction to the events on Wall Street in October 1987 clearly showed that although there is only one global financial market, regulations are still largely confined to national borders. The need for close co-operation and co-ordination among national supervisory authorities has never been more evident; moreover, the growing practice of offshore banking has created uncertainty about the lender of last resort. Recently, these dangers have at least been partially recognised by the leading central banks.

30. **The surge in speculative operations has also spilled over into industrial markets.** Leveraged buy-outs which originated in the United States have since spread to many other countries. Mostly financed through commercial bank loans and so-called junk bonds,<sup>21</sup> they have become increasingly attractive as a result of

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<sup>20</sup> See Annex B, Table 9.

<sup>21</sup> See Annex A.

tax deductibility of interest payments on debt in some countries (as opposed to dividend payments which are not deductible).

31. Confronted with the fact that less developed countries have had continuous problems in servicing their debt, commercial banks have become more and more reluctant to lend fresh money. **Voluntary new lending has virtually ceased.** In recent years, those commercial banks which have lent money have done so mainly in order to ensure interest payments on outstanding loans.

Some banks have sold less developed countries' loans at a discount to other banks or third parties. (For example, in the first quarter of 1989 loans to Peru were discounted by 95 per cent, loans to Brazil by 66 per cent and loans to Argentina by 80 per cent.<sup>22</sup>) The increasing discounts of these loans in the secondary market<sup>23</sup> reflect the growing doubts about their ultimate value.

In some rescheduling arrangements, banks have traded loans against other assets at a discount. These so-called voluntary debt reductions are now estimated to exceed \$26 billion<sup>24</sup> for 15 major debtor countries<sup>25</sup>. On the other hand, the appreciation of the German deutsche mark and the Japanese yen has meant a significant increase in the value of deutsche mark and yen debt when converted into United States dollars.

32. **Debt rescheduling arrangements were, in most cases, linked to new financing by international financial institutions** (the International Monetary Fund (IMF), the World Bank and the regional development banks, such as the

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<sup>22</sup> See Annex B, Table 10.

<sup>23</sup> See Annex A.

<sup>24</sup> See Annex B, Table 11.

<sup>25</sup> See Annex A.

African, Asian and Inter-American development banks). In the past, their imposition and supervision of adjustment policies focused mainly on cuts in government expenditure and money growth, reductions in imports and devaluation of the recipient country's currency. But while these policies may have improved balance of payments, they may have been formulated too narrowly to lead to growth, penalising in some cases, the poorest segments of society and causing, in turn, social and political unrest.

33. The international financial institutions have an important role to play in increasing the flow of funds to the developing countries. In most cases their participation in debt-rescheduling arrangements is a pre-condition for new lending by commercial banks. Through the basic financing of projects and policy loans<sup>26</sup> designed to increase the efficiency of the economy, expand exports and reduce imports through the substitution of domestically produced goods, they assume a catalyst role for capital inflows from other sources. Although their own commitments have been substantial in the past, in recent years **net transfers from the IMF and the World Bank have become negative.**

In the World Bank's case, the fact that funds must be raised on the international capital markets may discourage the Bank from taking risks in its lending policy. However, the recent increase in OECD countries' capital commitments should enable it to exert greater leadership both in providing capital and in supporting flows by others.

34. The decline in new lending, coupled with increasing payments both of interest and principal, have meant that since 1982 **the net transfer of resources to the developing countries has fallen.** In 1984 it became negative for the first time.

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<sup>26</sup> See Annex A.

In 1988 the net flow of resources from the developing countries to the industrialised world was estimated at \$43 billion; with a total net flow of \$140 billion between 1984 and 1988.<sup>27</sup> But over the same period the total amount of the developing countries' debt increased from \$950 billion to \$1,240 billion.<sup>28</sup>

35. The debt crisis of the developing countries amounts, in fact, to a **number of quite differently structured national or regional debt crises** which call for different approaches. Debts have taken different forms--state-state, state-private, state-international institutions, private-state, private-private, private-international institutions. The IMF has estimated that by 1988 the developing world's total foreign debts, which stood at \$850 billion in 1982, had risen to \$1,240 billion. \$1,040 billion of this was long-term debt of which \$120 billion was unguaranteed and \$920 billion guaranteed by governments of debtor countries. Of the guaranteed debt \$490 billion was to official creditors, \$350 billion to commercial banks and \$80 billion to other private creditors.<sup>29</sup>

36. In 1985 the Baker initiative<sup>30</sup> recognised **the central need for growth-oriented policies in highly indebted countries**. In particular, it focused on adjustment programmes in the borrowing countries, on debt-rescheduling to buy time and on new lending by private banks to finance basic investment.

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<sup>27</sup> See Annex B, Table 12.

<sup>28</sup> See Annex B, Table 13.

<sup>29</sup> See Annex B, Table 13.

<sup>30</sup> See Annex A.

Since then, a menu of market-based options has been used increasingly, including voluntary debt reduction - an approach which has been further emphasised by United States Secretary of the Treasury, Nicholas Brady.<sup>31</sup>

37. The debtor countries have gone through important adjustment programmes with a significant change taking place in their traditional economic thinking. The economic reform programmes are a permanent ongoing process and must be strengthened. But the fact remains that, while the debtor countries have made some progress in this direction, **the flow of private credit has not been adequate to support their internal growth.** Moreover, recent increases in interest rates have in some cases more than offset important domestic adjustment efforts.

38. **Capital flight<sup>32</sup>** from many developing countries mirrors both their poor growth prospects and the lack of confidence in the management of their economic and fiscal policy mix. The fact that citizens of these countries often prefer to invest their money abroad, particularly in the industrialised world, **has exacerbated the debt problem.** Poor growth prospects have also accelerated brain-drain.

39. **Military expenditure** in OECD countries, CMEA countries, some OPEC countries and many developing countries, still **represents a major proportion of national budgets.** Whereas, in absolute terms, a staggering \$470 billion was spent by OECD countries for military purposes in 1987, only \$40 billion was devoted to ODA. In other words, ODA from OECD countries amounted to only 8.8 per cent of their military spending.

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<sup>31</sup> See Annex A.

<sup>32</sup> See Annex B, Table 14.

For the member countries of the North Atlantic Alliance, the ratio of ODA to military spending is even lower. Figures for military expenditure by CMEA countries are uncertain.<sup>33</sup>

40. In the developing countries **military expenditure is considerably larger than receipts of ODA**. It is estimated that, of roughly \$1,000 billion in annual global military spending, \$200 billion was spent by the developing countries (including the People's Republic of China). The aggregate ODA to these countries, however, amounts to only \$48 billion, i.e. one quarter of their military expenditure.

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<sup>33</sup> See Annex B, Table 17.

### III. THE WAY FORWARD - RECOMMENDATIONS

41. Adequate and **sustainable growth in the world economy and in world trade is the key** to developing a sound and efficient pattern of international financial flows, particularly towards the developing countries.

42. Sustainable economic growth cannot be achieved in a monetary environment characterised by high inflation and erratic exchange rate fluctuations. **The future world monetary system must therefore exert disciplining effects on national economic management**, combined with close international co-operation.

The European Monetary System (EMS) demonstrates that more stable conditions can be achieved. A strengthening and widening of this system could eventually pave the way towards a reform of the world monetary system. As a further step towards international monetary co-operation, the Soviet Union, China and the CMEA countries should be invited to participate more fully and equitably in international monetary arrangements.

43. **Free trade** is a prime benefit to the world economy but **is under attack**. Efforts must be mobilized for its defense. Effective steps to fight all kinds of protectionism and to abolish all trade barriers are essential, particularly in the field of agricultural products, capital movements and services.

To achieve this goal, **OECD countries in particular should make a concerted effort to reduce substantially all non-tariff barriers over the next five years**. This would reverse a process which, in the period between 1981 and 1986, saw non-tariff barriers increase by 25 per cent in the United States and by 20 per cent in the European Economic Community.



Over ten years OECD countries should move to eliminate all tariff barriers as well as the remaining non-tariff barriers.

44. The declarations of emerging free trade areas, such as the European single market, favouring a further widening of free trade and opposing all barriers that would stifle growth potentials are welcome. But all temptations to develop these regions into economic fortresses must be resisted. **These emerging free trade areas should remove non-tariff barriers against third countries** and particularly less developed countries.

45. The present structure of global capital flows will not be reversed as long as the richest economy in the world, **the United States**, continues to absorb a substantial share of the world's capital formation and the two biggest capital exporting countries, **Japan and the Federal Republic of Germany**, continue to concentrate their enormous surpluses largely in the United States.

46. **The United States must apply policies designed to reduce its massive fiscal and current account deficits and resume its status as a net capital exporter by the mid-1990's.**

In order both to raise its savings rate and strengthen capital formation, the United States should **restore fiscal balance within four years**, by both expenditure cuts and, if necessary, tax increases.

The United States should reduce incentives for debt creation by abolishing tax provisions which favour debt rather than equity financing.

47. Energetic efforts by **Japan and the Federal Republic of Germany** are essential in order to reduce their current account surpluses vis-a-vis the rest of the

world and to base their economic growth on domestic demand. (In the case of Japan, this process has already begun.) The two countries **should reduce their current account surplus to 1 per cent of GNP.** Both should take budgetary measures, e.g. abolishing preferential tax treatment of private saving and encouraging public expenditure for infrastructure purposes.

**Japan should increase its ODA dramatically - from below the OECD average to 1 per cent of GNP.**

48. **The Soviet Union and the other CMEA countries, as well as the People's Republic of China, should take steps to integrate their economies more fully into the world economy.** To encourage this process, they should be welcomed as full participants in international organisations, such as the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade (GATT), provided they assume the full obligations of membership. Adjustments should be made to the voting rights in the Bretton Woods institutions in order to accommodate an enlarged membership.

49. The present thrust of **Chinese, Soviet and other CMEA countries'** leadership towards **structural reform of their domestic economies is welcome.** The extension of private credits at market terms to these countries should not be discouraged.

**The Soviet Union should undertake to become a more important donor of ODA.**

50. After a period of renewed Cold War and a competitive arms race, **the United States, the Soviet Union and their allies now seem prepared to reduce political confrontation and to negotiate mutually balanced disarmament treaties.** The

normalisation of superpower relations has already led to a solution of some regional conflicts. There is a window of opportunity for a negotiated structure of relations between West and East, which, by **reducing political tension and the military burden**, could help efforts to:

- (a) **tackle the U.S. budgetary problem;**
- (b) **bring about economic improvement in the Soviet Union and the East European countries;**
- (c) **increase the flow of funds to the developing countries;**
- (d) **improve conditions for global economic growth; and**
- (e) **provide funds for environmental problems.**

51. **The developing countries should make the creation of a favourable economic environment a priority.** This should include efforts at lowering rates of inflation, opening markets as soon as conditions permit, requiring parastatal enterprises to meet market standards, addressing the problems of the poor, reducing rates of population growth, avoiding degradation of the environment, improving legislation concerning private property, establishing an equitable tax system and reducing government intervention over micro-economic management, etc. The economic environment will be the key factor in determining further lending by commercial banks and in attracting foreign direct investment.

Coupled possibly with legal amnesty measures, a more favourable economic environment would reduce capital flight and encourage capital repatriation.

52. Self-sustaining growth for **all developing countries** will ultimately depend on their own efforts and policies to enhance savings and production efficiency. At the same time, many countries representing a large proportion of the world's population are so mired in poverty and so poor in resources that **sizeable amounts**

of official development assistance are urgently needed to start and support the growth process. Such assistance should be conditional upon strict standards of efficiency and effective return on capital.

Consistent with meeting those requirements, the total amount of ODA provided by the industrialised countries should be doubled over the next five years.

The least developed countries and disaster relief should continue to have first claim on ODA funds.

At the same time, the preservation of the environment will require very large amounts of capital. The greenhouse effect will oblige all states to reduce the emission of carbon dioxide gases caused mainly by energy production using hydrocarbons. This obligation cannot and should not impose additional burdens on the developing countries. Those burdens should be borne by the industrialised countries who, in the past, have been mainly responsible for the emission of greenhouse gases.

53. Public opinion, parliaments and governments of the donor countries find it politically difficult to increase development aid, to impose new taxes, or to earmark specific funds within the normal budgetary process. Nevertheless, in order to ensure the long-delayed increase in the resources for ODA, a mechanism of automaticity should be explored and implemented in each donor country. For example, if such a process were to start at 0.5 per cent of GNP in 1990 and rise by 0.04 per cent per annum, it would reach 0.7 per cent in 1995 and yield somewhat over \$100 billion per annum.

54. Donor nations and international financial institutions should give special consideration to countries which:

- (a) emphasise **poverty reduction** programmes;
- (b) spend less than **2 per cent of GNP on military expenditure**;
- (c) apply or take steps toward **efficient family planning policies** in order to cope with the problem of population growth; or
- (d) implement policies aimed at the **preservation of the environment**.

55. **There is no region in the world in which the problems of development are as overwhelming and pressing as in sub-Saharan Africa.** This is true in terms of population growth, environmental degradation and declining agricultural and food production, but it is particularly true with regard to the dearth of trained and skilled human resources.

Ultimately, the possibility of redressing their situation lies with Africans themselves. However, without sufficient levels of policy-making, professional, technological and managerial leadership, this is a responsibility which sub-Saharan Africa cannot bear. Donor countries and multilateral agencies should make special efforts to provide funds for the educational training and qualitative enhancement of African leadership in these and related areas.

Specifically, **the OECD countries--with major participation by the surplus countries--should establish a \$1 billion endowment fund** to be administered by the African Development Bank. The proceeds of this fund should be **used to assist the development of such leadership** in order to create the institutional infrastructure in sub-Saharan Africa so vital to its achieving sustainable political stability and economic growth.

In addition, the flow of external financing to this region should be increased over and above projected levels, by means of both further specific debt relief and larger ODA.

As a means of encouraging transnational co-operation, investment should also be targeted at regional and subregional projects and programmes.

56. **Special assistance should be given to address the drug problem**, including the eradication of drug-producing crops. The donor countries should supply long-term financing to support concerned governments in their efforts to replace present production with food or agro-industrial crops and to attend to the basic social needs of those involved in the transition process.

But the developing countries involved in the production of basic agricultural crops from which drugs are manufactured and distributed, cannot assume sole responsibility for a problem which concerns mankind as a whole. Consumer countries have a major responsibility, not only to reduce demand for drugs, but to bear the financial, social and political burdens in the fight against drug consumption and international drug trafficking. All governments should recognise the global implications of the drug problem and should take immediate and collective action. To this end, **an international agreement should be reached** between all those countries involved in the growth, spread, trafficking and use of drugs.

57. The complexity of the **debt issue**, as well as its structural variety, call for urgent and long-term solutions on a case-by-case basis. This **requires fresh institutional approaches**.

58. **The problem of the heavily indebted countries demands priority attention and immediate action**. Recent developments underline the urgent need for new initiatives which will provide both for the restructuring of existing debt and for the new financing which will be needed to meet future requirements. Not only is the present situation deteriorating, but without positive action, prospects for further

economic growth and financial stability will be seriously jeopardized. Democracy itself is in danger of being undermined.

The "**Brady Plan**" officially recognises that commercial banks must, directly or indirectly, accept a reduction in the value of their loans to the developing countries. It also accepts, for the first time, the need for the Bretton Woods institutions to support debt reduction. Detailed measures must include some combination of debt and interest reduction, as well as official support by way of new funds and partial guarantees of re-written and reduced commercial bank debt.

In this connection, it is essential to recognise that **effective co-operation among commercial banks, international institutions, debtor and creditor governments, requires simultaneous action.** This will not be achieved without adequate financing and strong centralized leadership from the heads of the two Bretton Woods institutions. The IMF and the World Bank will need to work closely together to encourage joint evaluation and review.

59. This process might be achieved most efficiently through **the creation of a new facility sponsored by the World Bank and the IMF.** This facility should aim to mobilize substantially greater funds than those now flowing to the developing countries. Such funds, in addition to those provided by the IMF and the World Bank, would be furnished by voluntary contributions from OECD countries, **with Japan playing the major role.**

In time, it might be desirable for this facility to assume an institutional structure, to raise equity and to borrow from the markets. It could immediately become a focus for leadership in the negotiation and co-ordination of effective debt relief consistent with development.

60. Given the very size of the financial needs of highly indebted countries, commercial banks that wish to maintain an active presence in these countries should be encouraged to provide increased financing for trade or investment. In some instances co-financing with the World Bank and the regional development banks is appropriate. **Commercial banks**, in particular those which do not agree to voluntary debt relief or to provide significant new money, **should be asked to accept local currencies for a portion of the interest due to them**, thereby creating funds for local investment.

These co-ordinated financial programmes should be based on economic programmes extending over several years, under the general surveillance of the World Bank and the IMF.

61. Given the serious political and social implications of the domestic adjustment programmes on which further financial flows will be conditional, the multilateral institutions should consider **establishing an advisory group** to review the general criteria used for establishing conditionality.

62. Because **Japan** has played, and should continue to play, an increasing role in the financing of the IMF and the World Bank and, in particular, the International Development Association (IDA), its **increasing contribution should be recognised by the provision of adequate voting rights**.

63. **Reductions of commercial bank debt will not be a panacea**. If agreed on a voluntary basis, it is highly unlikely that the relief will be sufficient under present conditions. If, on the other hand, such reductions were to be imposed unilaterally, they would seriously endanger the future credit worthiness of the highly indebted countries. There remains, therefore, **a pressing need to meet their external**



**financial requirements.** The secretariat of the United Nations Conference on Trade and Development (UNCTAD) estimates that the amount of additional external resources necessary in order to achieve 3 per cent growth per capita in the highly indebted countries is roughly \$16 billion per year over the next five years; i.e. a 30 per cent reduction of the outstanding debt to private creditors would reduce interest payments by this amount.<sup>34</sup>

64. Governments of OECD countries should promote private investment in - and lending to - the developing countries by means of various supportive measures, such as government guarantees against political risks and changes in regulations, accounting rules and tax laws, which would help to build up reserves against possible loan losses.

65. The link between trade, debt and development must be recognised. A substantial expansion of the highly indebted countries' traditional and non-traditional exports is essential both for resumed economic growth and in order that significant progress can be made in solving the debt problem. Combined with a strengthening of the export-oriented strategies initiated by a number of the developing countries, a more open and favourable international trading environment (including the reduction of non-trade barriers, quotas, certification of origin and an extension of specific preferential treatment) will offer possibilities for servicing debt.

66. Members of OPEC and other oil-exporting countries should accept their share of responsibility for undisrupted and smooth global economic development. Acknowledging the effects of the two oil price shocks in the 1970s, they should

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<sup>34</sup> See UNCTAD, Trade and Development Report, 1988, p. 112-118.

undertake to provide oil at predictable and stable prices. The price of oil should on average reflect the requirement of balancing long-term supply and demand.

67. A favourable domestic environment has played a key role in the emergence of Newly Industrialised Economies (NIEs), fostering their evolution from developing to industrialised countries. On the other hand, severe economic constraints and negative growth rates in a number of other countries are clearly the result of wrong economic policies. **We call attention to the fact that the primary responsibility for economic and social advance lies with the people and leaders of each nation.**

**ANNEX A**

**DEFINITIONS AND EXPLANATIONS**

### **BAKER INITIATIVE**

The Baker plan, put forward by the then United States Treasury Secretary, James A. Baker III, in Seoul in October 1985, specifically called for \$29 billion in extra commercial bank and international financial institutions' loans over three years, provided the borrowing nations were "willing to commit themselves" to market-oriented growth policies.

### **BRADY PLAN**

The plan, proposed by United States Treasury Secretary Nicholas F. Brady in Washington D.C. in March 1989, outlines a basis on which to "work to revitalize the current debt strategy." This basis includes steps to permit negotiated debt or debt service reduction schemes, financing of specific debt reduction programmes by international financial institutions, more timely disbursement of financial support, rescheduling and restructuring of debt through the Paris Club, additional financial flows, reduction of administrative impediments to debt reduction, measures against capital flight, and an improvement of the economic environment in debtor countries.

### **CENTRALLY PLANNED ECONOMIES (CPE)**

Bulgaria, China, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, USSR; there are other countries, such as Cuba, Viet Nam and others, which also may be considered as centrally planned economies.

#### **COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE (CMEA)**

European members are Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and USSR. Non-European members are Cuba, Mongolia and Viet Nam.

#### **DEVELOPMENT ASSISTANCE COMMITTEE (DAC) OF THE OECD**

Members are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, United States and the Commission of the European Communities.

#### **FOREIGN DIRECT INVESTMENTS**

The book value of direct investors' equity in - and outstanding loans to - their foreign affiliates. A foreign affiliate is a foreign business enterprise in which a single investor owns at least 10 per cent of the voting securities, or the equivalent.

#### **GROUP OF SEVEN (G7)**

Seven major industrialised countries: Canada, France, Federal Republic of Germany, Italy, Japan, United Kingdom and United States.

#### **HIGHLY INDEBTED COUNTRIES**

Countries deemed to have encountered severe debt-servicing difficulties:

Baker countries (15): Argentina, Bolivia, Brazil, Chile, Colombia, Cote d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, Yugoslavia;

17 highly indebted countries (World Bank classification):

Baker countries + Costa Rica and Jamaica.

At specified places this description also includes Poland and Hungary.

### **JUNK BONDS**

High-yielding bonds that are below investment grade and are at times used in corporate take-overs and buy-outs.

### **LEAST DEVELOPED COUNTRIES (LLDC)**

United Nations classification taking into account GNP per capita, share of industrial production and literacy. The following countries are classified as LLDCs by the United Nations:

#### **Africa**

Benin, Botswana, Burkina Faso, Burundi, Cap Verde, Central African Republic, Chad, Comoros, Djibouti, Equatorial Guinea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda;

#### **Asia and Pacific**

Afghanistan, Bangladesh, Bhutan, Burma, Kiribati, Lao People's Democratic Republic, Maldives, Nepal, Tuvalu, Vanuatu, Western Samoa, Yemen Arab Republic, People's Democratic Republic of Yemen;

#### **Latin America and the Caribbean**

Haiti.

### **LENDING AND BORROWING**

Flow of non-concessional, repayable funds from commercial banks, governments or international financial institutions, i.e., IMF, World Bank, etc.

### **LESS DEVELOPED COUNTRIES (LDC)**

The Development Assistance Committee of the OECD defines as less developed countries all Latin American and Caribbean countries, all African countries except South Africa, all Asian countries except Japan, all Oceanian countries except Australia and New Zealand and in Europe Cyprus, Malta, Poland, Romania, Turkey and Yugoslavia.

### **LOW-INCOME COUNTRIES (LIC)**

Less developed countries with a 1987 per capita GNP of \$426 or less, having a total population of 2.8 billion (World Bank classification). Low income countries include all least developed countries (LLDCs) except Botswana, Cape Verde, Samoa, Yemen Arab Republic, People's Democratic Republic of Yemen (which are considered to be middle income countries) and the following countries: Burma, China, Ghana, India, Kampuchea, Kenya, Madagascar, Mozambique, Pakistan, Senegal, Sri Lanka, Viet Nam, Zaire, Zambia.

### **MIDDLE-INCOME COUNTRIES (MIC)**

Less developed countries with a 1987 per capita GNP of \$426 or more, having a total population of over 1 billion (World Bank classification).

### **NEWLY INDUSTRIALISED ECONOMIES (NIE)**

Asia: Hong Kong, Korea, Singapore, Taiwan

### **OFFICIAL DEVELOPMENT ASSISTANCE (ODA)**

The Development Assistance Committee of OECD defines ODA as grants or loans with a grant element of at least 25 per cent. The grant element measures the degree of concessionality of loans.

### **OFFICIAL TRANSFERS**

Payments by governments that result in no purchase of goods or services, e.g. foreign aid grants, disaster relief, subsidies to defence budgets, etc.

### **ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)**

Members are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.

Except Greece, Portugal and Turkey, which are middle income developing countries, OECD members are developed market economies or industrialised countries.

### **ORGANISATION OF PETROLEUM EXPORTING COUNTRIES (OPEC)**

Thirteen oil producing countries: Algeria, Ecuador, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela.

### **PARIS CLUB**

The Paris Club negotiates arrangements to defer payment obligations on credits extended or guaranteed by creditor-country government agencies.



### **POLICY LOANS**

Policy loans of the World Bank are loans for structural adjustment of the whole economy or a specific sector, e.g. energy. Other World Bank loans are for special projects.

In the years 1985-1988, policy loans represented 32.3 per cent of the total World Bank lending to highly indebted countries (compared to 14.8 per cent in the years 1982-1984).

### **SECONDARY MARKETS**

The term refers here to the markets where loans of highly indebted countries are traded. The effective price to be paid by the buyer is typically lower than the face value of the loan, reflecting the risk of non-payment by the borrower country. The Morgan Guaranty Trust Company estimates the average discount for debt of the Baker 15 to be 60 per cent (end 1988).

### **SUB-SAHARAN AFRICA**

All countries south of the Sahara excluding South Africa (i.e. all African countries other than Algeria, Egypt, the Libian Arab Jamahiriya, Morocco, Tunisia, South Africa).

### **TERMS OF TRADE**

Relation between the prices of a country's exports and the prices of its imports.

**ANNEX B**

**STATISTICAL TABLES**

## INDEX

1. Basic Indicators.
2. World Population and Gross National Product, 1987.
3. Developing Countries: External Financing, 1981-1988.
4. East European Debt in Convertible Currencies, 1981-1987.
5. Official Development Assistance: Donor Countries.
6. Total Net Receipts of Official Development Assistance from Major Sources by Region.
7. Africa: Demography and Fertility.
8. Claims on Developing Countries of Banks in the United States.
9. Estimated Levels of Provisioning by Banks against Developing Country Assets by Major Creditor Countries, 1988.
10. Secondary Market Prices of Developing Country Loans, 1987-1989.
11. Estimated Face Amount of Voluntary Bank Debt Reduction, 1985-1988.
12. Public and Private Long-Term Debt and Financial Flows in Developing Countries, 1982-1988.
13. Developing Countries: External Debt, by Class of Creditor, 1981-1988.
14. Capital Importing Developing Countries by Region: Summary Estimates of Capital Flight, 1975-1985.
15. Balance of Payments on Current Account for the United States, Japan and the Federal Republic of Germany, 1982-1988.

16. Debt Stock of Developing Countries:
  - A. Latin America and the Caribbean, 1987.
  - B. Africa, South of the Sahara, 1987.
  - C. Asia, 1987.
  - D. North Africa and the Middle East, 1987.
  - E. Southern Europe and the Mediterranean, 1987.
  
17. Military Expenditures and Official Development Assistance, 1987.

TABLE 1

## BASIC INDICATORS

	Population (millions) mid-1987	Area (1000 Km <sup>2</sup> )	G N P per capita		Average annual growth rate	Average annual inflation rate		Life ex- pectancy
			US\$		(%)	(%)		(years)
			1965 <sup>a</sup> /	1987	1965-87	1965-87	1980-87	1987
Low-income economies	2,822.9	37,015	140 <sup>b</sup> /	270 <sup>c</sup> /	3.1	8.9	8.6	61
China and India	1,866.1	12,849	130	300	3.9	2.9	5.5	65
Other low-income	956.9	24,166	140 <sup>b</sup> /	200 <sup>c</sup> /	1.5	18.2	13.3	54
Middle-income economies	1,038.5	36,118	980	1,680	2.5	20.4	62.3	65
Lower middle-income	609.6	16,781	710	1,140	2.2	16.9	36.7	64
Upper middle-income	432.5	20,272	1,370	2,570	2.9	23.2	86.8	67
Low and middle income	3,861.4	73,133	360	650	2.7	16.5	43.9	62
Sub-Saharan Africa	441.7	20,999	310 <sup>b</sup> /	370 <sup>c</sup> /	0.6	12.3	15.2	51
17 Highly indebted	582.5	21,213	930	1,430	2.0	26.0	91.2	63
High-income economies	777.2	33,757	8,820	14,550	2.3	7.9	5.2	76
OECD members	746.6	31,085	8,900	14,670	2.3	7.6	5.0	76
Others	30.6	2,673	4,330	9,220	3.5	15.9	13.3	70

a/ GNP per capita 1965 at 1987 prices, derived from columns (4) and (5)

b/ 1986 prices

c/ 1986

Sources: World Bank, *World Development Indicators*, 1989 (Draft);  
World Bank, *World Development Report 1988*, pp. 222 and 223.

TABLE 2

## WORLD POPULATION AND GROSS NATIONAL PRODUCT, 1987

	Population		GNP	
	(Millions)	(%)	(US\$ billions)	(%)
World	5,009	(100)	17,149	(100)
Developed countries	774	(15.4)	12,432	(72.5)
U.S.A.	244	( 4.9)	4,513	(26.3)
Japan	122	( 2.4)	2,385	(13.9)
EC	324	( 6.5)	4,287	(25.0)
Others	84	( 1.7)	1,248	(7.3)
Less Developed Countries	2,723	(54.4)	2,369	(13.8)
Least Developed Countries	386	( 7.7)	91	(0.5)
Asian Newly Industrialized Economies	70	( 1.4)	282	(1.6)
OPEC	414	( 8.3)	621	(3.6)
Other Middle-Income Countries	708	(14.1)	1,017	(5.9)
Other Low-Income Countries	1,145	(22.9)	359	(2.1)
(India)	781	(15.6)	247	(1.4)
Centrally Planned Economies	1,513	(30.2)	2,347	(13.7)
China	1,089	(21.7)	300	(1.8)
Others	424	(8.5)	2,047	(11.9)

Sources: Organisation for Economic Co-operation and Development, World Bank, United Nations and Daiwa Securities Research Institute.

TABLE 3

DEVELOPING COUNTRIES: EXTERNAL FINANCING, 1981-1988  
(US\$ billions)

	1981	1982	1983	1984	1985	1986	1987	1988
Deficit on goods, services, and private transfers	56.4	92.0	72.5	42.4	40.0	58.2	14.6	36.3
Non-debt-creating flows, net	21.7	26.9	19.5	20.7	33.3	28.8	36.9	34.0
Official transfers	7.3	8.6	10.1	11.0	14.0	16.0	16.0	17.1
Direct investment, net	18.0	20.2	13.1	13.8	11.3	10.1	12.8	16.3
Special drawing rights (SDR) allocation, gold monetization and valuation changes	-3.7	-1.9	-3.7	-4.1	7.9	2.7	8.1	0.6
Use of reserves	7.3	35.8	-1.7	-12.2	-18.7	-4.1	-56.6	-7.4
Asset transactions, net	-83.4	-49.0	-9.1	-13.0	-13.1	-16.1	-8.9	-11.9
Net errors and omissions	-15.1	-25.9	-12.9	-7.0	-1.7	2.9	-0.2	-4.4
Net external borrowing	125.8	104.2	76.6	54.0	40.3	46.7	43.4	26.0
Reserve-related liabilities	6.9	10.4	8.6	4.7	-0.6	-1.3	-5.9	-5.5
Liabilities constituting foreign authorities' reserves	0.4	3.6	-2.8	-0.3	-0.6	1.4	0.2	-
Net credit from IMF	6.5	6.9	11.4	4.9	-	-2.7	-6.1	-5.5
Long-term borrowing from official creditors, net	27.9	34.6	28.7	30.4	34.3	36.4	42.4	24.3
Other net external borrowing	91.0	59.2	39.3	18.9	6.6	11.6	6.9	7.2

Source: IMF, *World Economic Outlook*, April 1989, p. 172.

TABLE 4

EAST EUROPEAN GROSS DEBT IN CONVERTIBLE CURRENCIES, 1981-1987<sup>a/</sup>

(US\$ billions)

	1981	1982	1983	1984	1985	1986	1987
Bulgaria	3,162	2,977	2,482	2,165	3,640	5,075	6,000
Czechoslovakia	4,598	3,998	3,612	3,135	3,511	4,254	5,300
German Democratic Republic <sup>b/</sup>	15,423	12,998	12,191	11,332	13,563	15,764	18,500
Hungary	8,699	7,952	8,250	8,836	11,745	15,086	17,500
Poland	25,468	24,700	26,440	26,800	29,700	33,526	37,600
Romania	10,159	9,766	8,880	7,198	6,634	6,395	5,700
Sub-total	67,509	62,391	61,855	59,466	68,793	80,100	90,600
USSR	26,534	26,737	23,587	22,513	28,465	33,061	38,000
Total	94,043	89,128	85,442	81,979	97,258	113,161	128,600

<sup>a/</sup> End of the year.<sup>b/</sup> Includes intra-German debt.Source: OECD, Financial Market Trends, February 1988, p. 24.



TABLE 5

## OFFICIAL DEVELOPMENT ASSISTANCE: DONOR COUNTRIES

	Net	Percentage of	
	Disbursements	Gross National Product	
	1987 (US\$ millions)	1980-81 a/ average	1987
Australia	630	0.44	0.33
Austria	200	0.28	0.17
Belgium	690	0.54	0.49
Canada	1,890	0.43	0.47
Denmark	860	0.74	0.88
Finland	430	0.24	0.50
France b/	6,530	0.67	0.74
France c/	4,490	0.40	0.51
Germany, Federal Republic of	4,390	0.45	0.39
Ireland	50	0.16	0.20
Italy	2,620	0.18	0.35
Japan	7,450	0.30	0.31
Netherlands	2,090	1.01	0.98
New Zealand	90	0.31	0.26
Norway	890	0.86	1.09
Sweden	1,380	0.80	0.88
Switzerland	550	0.24	0.31
United Kingdom	1,870	0.39	0.28
United States	8,950	0.23	0.20
Total DAC Countries	41,530 <sup>d/</sup>	0.36	0.35
USSR	4,320	..	..
Eastern Europe	550	..	..
Total European members of CMEA	4,870	..	..
Libyan Arab Jamahiriya	40	1.16	0.16
Kuwait	320	3.52	1.23
Saudi Arabia	2,910	4.87	3.42
United Arab Emirates	20	4.06	0.08

a/ 1980 for Arab Countries.

b/ Including Départements and Territoires d'Outre-Mer.

c/ Excluding Départements and Territoires d'Outre-Mer.

d/ Individual figures may not sum up to the total due to rounding.

Source: OECD, Development Assistance Committee, *Co-operation and Development Report 1988*, pp. 68, 87 and 221.

TABLE 6

TOTAL NET RECEIPTS OF OFFICIAL DEVELOPMENT ASSISTANCE FROM MAJOR SOURCES BY REGION <sup>a/</sup>

Region	Percentage of total ODA	
	1975-76	1986-87
Sub-Saharan Africa	19.7	31.2
South Asia	20.2	16.5
Other Asia and Oceania	17.8	21.3
North Africa and Middle East	29.2	16.7
Latin America and Caribbean	12.2	13.1
Southern Europe	1.5	1.5
Total	100	100

<sup>a/</sup> ODA from DAC members, multilateral donors and, to the extent known, Arab donors.  
No data are available on net disbursements by members.

Source: Development Assistance Committee, Co-operation and Development Report 1988, pp. 200 and 201.

TABLE 7

## AFRICA: DEMOGRAPHY AND FERTILITY

	Population (millions)		Hypothetical Size of stationary population (millions)	Assumed year of reaching net reproduction rate of 1	Total fertility rate		
	1986	2000			1965	1986	2000
Benin	4	7	22	2035	6.8	6.5	6.2
Botswana	1	2	5	2025	6.9	6.6	4.9
Burkina Faso	8	12	42	2040	6.4	6.5	6.3
Burundi	5	7	24	2035	6.4	6.5	6.2
Cameroon	11	17	51	2030	5.2	6.9	6.0
Central Afr. Rep.	3	4	12	2035	4.5	5.7	5.8
Congo	2	3	10	2030	5.7	6.4	6.2
Cote d'Ivoire	11	17	51	2030	7.4	7.1	6.0
Chad	5	7	22	2040	6.0	5.9	5.7
Egypt	50	67	132	2020	6.8	4.6	3.5
Ethiopia	43	65	205	2040	5.8	6.3	5.8
Ghana	13	20	58	2030	6.8	6.3	5.4
Kenya	21	36	121	2030	8.0	7.7	6.6
Lesotho	2	2	6	2030	5.8	5.8	5.1
Liberia	2	3	11	2035	6.4	6.6	6.8
Madagascar	11	16	52	2035	6.6	6.4	5.7
Malawi	7	12	42	2040	7.8	7.6	6.8
Mali	8	48	39	2040	6.5	6.5	6.3
Mauritania	2	3	9	2040	6.5	6.5	6.3
Mauritius	1	1	2	2000	4.8	2.2	2.1
Morocco	22	30	59	2020	7.1	4.5	3.5
Mozambique	14	22	74	2040	6.8	6.3	6.1
Niger	7	10	36	2040	6.8	7.0	6.7
Nigeria	103	164	529	2035	6.9	6.9	6.1
Rwanda	6	10	40	2040	7.5	8.0	7.1
Senegal	7	10	30	2035	6.4	6.5	5.7
Sierra Leone	4	5	18	2045	6.4	6.5	6.3
Somalia	6	8	30	2040	6.7	6.8	6.5
Sudan	23	34	101	2035	6.7	6.6	5.8
Tanzania	23	37	123	2035	6.6	7.0	6.2
Togo	3	5	16	2035	6.5	6.5	5.7
Tunisia	7	10	18	2015	7.0	4.4	3.3
Uganda	15	23	82	2040	6.9	6.9	6.2
Zaire	32	48	142	2035	6.0	6.1	5.4
Zambia	7	11	37	2035	6.6	6.8	5.9
Zimbabwe	9	13	33	2025	8.0	6.0	4.4
Total sub-Saharan Africa a/	424	659 b/	2,041	2035	6.6	6.7	6.0
<u>For comparison purposes:</u>							
China	1,054	1,279	1,700	2000	6.4	2.3	2.2
India	781	1,002	1,700	2010	6.2	4.4	3.2

a/ See Annex A.

b/ 1,200 in 2025.

Source: Derived from World Bank, World Development Report 1988, pp. 274-277.

TABLE 8

CLAIMS ON DEVELOPING COUNTRIES  
OF BANKS IN THE UNITED STATES, 1984-1988  
(US\$ millions)

	1984	1985	1986	1987	1988		
					Q1	Q2	Q3
All LDC Borrowers	142,186	137,222	133,941	130,589	125,245	118,813	119,439
Geographic regions:							
Africa	4,618	4,323	3,722	3,406	3,174	2,041	1,909
Latin America	105,565	100,434	100,115	99,178	96,218	94,510	93,431
Asia	22,805	22,475	20,733	19,983	18,539	15,145	14,488
Middle East	2,339	2,270	2,004	1,724	1,442	1,399	4,009
Eastern Europe	1,653	1,703	2,390	1,598	1,354	1,525	1,771
Other Europe	5,206	6,017	4,977	4,701	4,518	4,193	3,831

Sources: U.S. Treasury Bulletin (Quarterly Series) and World Bank.

TABLE 9

ESTIMATED LEVELS OF PROVISIONING BY BANKS  
AGAINST DEVELOPING COUNTRY ASSETS  
BY MAJOR CREDITOR COUNTRIES, 1988

Country	Percentage
Canada	35
France	45
Germany, Federal Republic of	50
Japan	10
Switzerland	50
United Kingdom	35
United States	30

Source: World Bank, World Debt Tables, 1988-1989 edition, p. xxx.

TABLE 10

SECONDARY MARKET PRICES OF DEVELOPING COUNTRY LOANS, 1987-1989  
(in percent of face value)

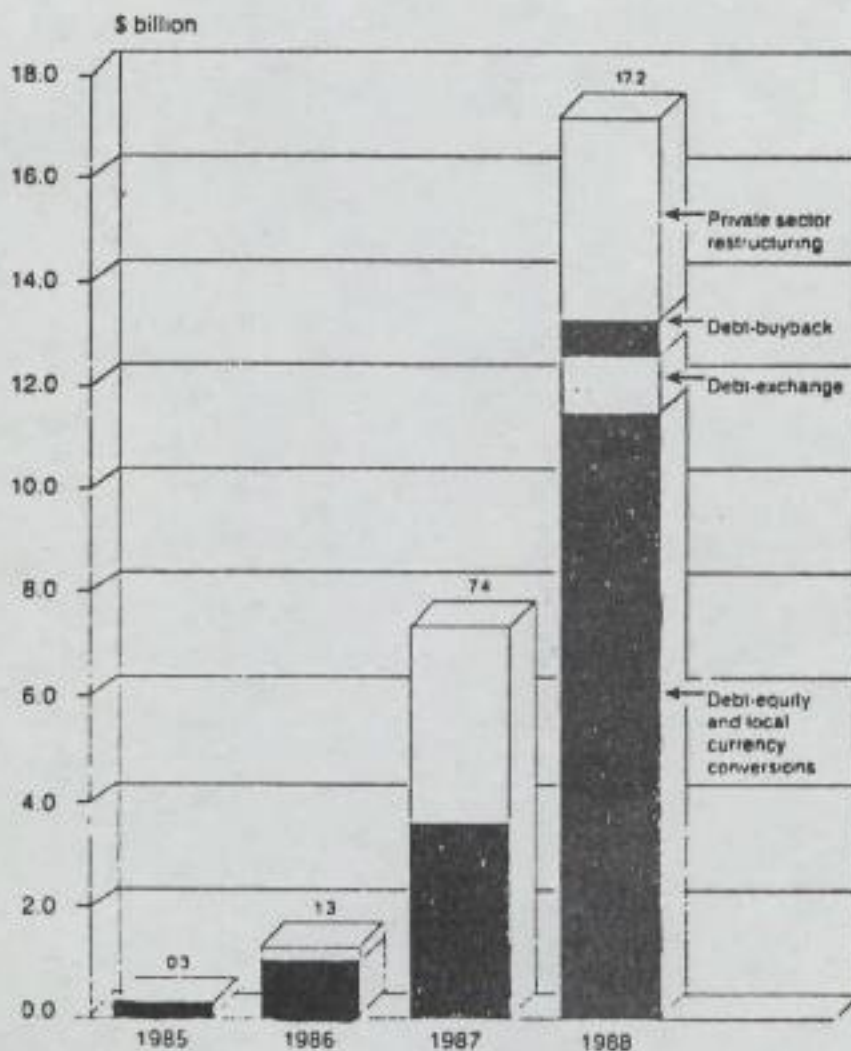
	1987				1988				1989
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Highly indebted countries	59	54	44	41	39	39	37	34	32
Argentina	65	47	37	34	28	24	23	21	20
Bolivia	9	9	9	11	11	11	10	10	—
Brazil	66	61	39	47	51	50	46	40	34
Chile	68	69	56	61	57	61	60	57	60
Colombia	86	85	79	65	65	65	66	58	56
Costa Rica	36	36	25	15	13	11	13	12	13
Cote d'Ivoire	80	65	52	40	30	29	27	23	19
Ecuador	64	49	33	37	32	26	18	13	13
Jamaica	50	42	36	33	33	37	32	40	40
Mexico	57	56	47	50	49	50	47	43	38
Morocco	69	66	63	52	50	49	50	48	47
Nigeria	36	29	25	29	29	28	23	23	19
Peru	18	11	10	7	5	6	5	5	5
Philippines	70	69	59	50	51	54	52	49	46
Uruguay	71	74	66	59	60	60	60	60	60
Venezuela	74	70	53	57	53	54	48	41	37
Yugoslavia	78	75	60	49	47	46	47	45	44

Q = Quarterly

Sources: Salomon Brothers and World Bank

TABLE 11

ESTIMATED FACE AMOUNT OF VOLUNTARY  
BANK DEBT REDUCTIONS<sup>a/</sup>  
Baker 15 b/; highly indebted countries



a/ In a debt-to-equity conversion programme a portion of the secondary market discount is 'captured' by the country through an auction process or conversion fees.

In debt buy-back and exchange schemes a country buys its own out-standing debt for cash or exchanges the debt for bonds (guaranteed by an international financial institution or an OECD-Government) at a discount.

Private sector restructuring entails the restructuring and settlement of debt owed by the private sector.

b/ See Annex A.

Source: The Institute of International Finance, *The Way Forward for Middle Income Countries*, January 1989, p. 22.

TABLE 12

PUBLIC AND PRIVATE LONG-TERM DEBT AND FINANCIAL FLOWS  
IN DEVELOPING COUNTRIES, 1982-1988

(US\$ billions)

	1982	1983	1984	1985	1986	1987	1988 <sup>a/</sup>
Debt disbursed and outstanding	562.5	644.9	686.7	793.7	893.9	996.3	1020.0
Disbursements (From private creditors)	116.9	97.2	91.6	89.3	87.7	86.7	88.0
Debt service	98.7	92.6	101.8	112.2	116.5	124.9	131.0
Principal repayments	49.7	45.4	48.6	56.4	61.5	70.9	72.0
Interest	48.9	47.3	53.2	55.8	54.9	54.0	59.0
Net flows	67.2	51.8	43.0	32.9	26.2	15.8	16.0
Net transfers	18.2	4.6	-10.2	-22.9	-28.7	-38.1	-43.0

<sup>a/</sup> Preliminary estimate.

Source: World Bank, World Debt Tables 1988-1989 edit. p. xii.



TABLE 13

DEVELOPING COUNTRIES: EXTERNAL DEBT, BY CLASS OF CREDITOR,  
END OF YEAR, 1981-1988 a/

(US\$ billions)

	1981	1982	1983	1984	1985	1986	1987	1988
Total debt	751.9	851.5	904.1	946.6	1,023.0	1,114.1	1,230.9	1,239.7
Short-Term	160.8	187.1	177.0	179.9	161.5	169.8	192.2	197.2
Long-Term	591.1	664.4	727.1	766.7	861.5	944.3	1,038.7	1,042.5
Unguaranteed <u>b/</u>	137.9	145.6	142.4	142.9	143.0	137.9	129.4	120.4
Guaranteed <u>b/</u>	453.2	518.8	584.7	623.8	718.5	806.3	909.3	922.1
To official creditors	218.6	249.0	273.3	296.1	346.0	399.7	468.2	490.1
To financial institutions <u>c/</u>	189.4	216.7	256.2	274.3	314.1	339.7	362.7	352.8
To other private creditors <u>d/</u>	45.2	53.1	55.2	53.4	58.4	67.0	78.4	79.2

a/ Excludes debt owed to IMF

b/ Refers to guarantee granted by an official agency of the debtor country.

c/ Covers only public and publicly guaranteed debt to banks.

d/ Includes all unguaranteed debt on the presumption that this is owed mainly to private creditors, some of which may be banks but cannot be separately identified.

Source: IMF, *World Economic Outlook*, April 1989, page 187.

TABLE 14

CAPITAL IMPORTING DEVELOPING COUNTRIES  
 BY REGION: SUMMARY ESTIMATES OF  
 CAPITAL FLIGHT<sup>a/</sup>, 1975-1985  
 (US\$ billions)

	Annual Averages			Increase from End-1974 to End-1985 in Stocks Outstanding
	1975-78	1979-82	1983-85	
Africa	1.7	4.1	1.8	28.5
Asia	-0.8	7.0	-2.2	18.3
Europe	1.1	2.7	3.0	24.0
Non-oil Middle East	0.2	-0.7	2.7	6.2
Western Hemisphere	3.7	14.7	11.0	106.6

a/ Capital flight here is defined as that part of the whole economy's stock of foreign assets that does not yield a recorded investment income.

Source: Michael Denmler, Martin Williamson, Capital Flight: Concepts, Measurement, and Issues, International Monetary Fund, Staff Studies, August 1987.

TABLE 15

BALANCE OF PAYMENTS ON CURRENT  
ACCOUNT FOR THE UNITED STATES, JAPAN  
AND THE FEDERAL REPUBLIC OF GERMANY

1982-1988

(US\$ billions)

	1982	1983	1984	1985	1986	1987	1988
United States	-8.7	-46.3	-107.1	-115.1	-138.8	-154.0	-135.3
Japan	6.9	20.8	35.0	49.2	85.8	87.0	79.5
Germany, Federal Republic	5.1	5.3	9.9	16.6	39.3	45.0	48.5

Source: International Monetary Fund, World Economic Outlook, April 1989, p. 157.

TABLE 16A

DEBT STOCK OF DEVELOPING COUNTRIES<sup>a/</sup>:  
LATIN AMERICA AND THE CARIBBEAN, 1987

Country	US\$ millions
Argentina	56,813
Bahamas	233
Barbados	621
Belize	138
Bolivia	5,548
Brazil	123,931
Chile	21,239
Colombia	17,006
Costa Rica	4,727
Dominican Republic	3,695
Ecuador	10,437
El Salvador	1,762
Grenada	72
Guatemala	2,825
Guyana	1,285
Haiti	804
Honduras	3,303
Jamaica	4,446
Mexico	107,882
Nicaragua	7,291
Panama	5,324
Paraguay	2,447
Peru	18,058
St. Vincent	39
Trinidad and Tobago	1,801
Uruguay	4,235
Venezuela	36,519

<sup>a/</sup> Total external debt, including short-term and use of IMF credit.

Source: World Bank, World Debt Tables, 1988-89 edition, Volume II.

TABLE 16B

DEBT STOCK OF DEVELOPING COUNTRIES<sup>a/</sup>:  
AFRICA, SOUTH OF THE SAHARA, 1987

Country	US\$ millions
Benin	1,133
Botswana	518
Burkina Faso	861
Burundi	755
Cameroon	4,028
Cape Verde	131
Central African Republic	585
Chad	318
Comoros	203
Congo, People's Republic of	4,636
Côte d'Ivoire	13,555
Djibouti	181
Equatorial Guinea	193
Ethiopia	2,590
Gabon	2,071
Gambia	319
Ghana	3,124
Guinea	1,784
Guinea-Bissau	424
Kenya	5,950
Lesotho	241
Liberia	1,618
Madagascar	3,377
Malawi	1,363
Mali	2,016
Mauritania	2,035
Mauritius	755
Niger	1,679
Nigeria	28,714
Rwanda	583
Sao Tome and Principe	87
Senegal	3,695
Seychelles	119
Sierra Leone	659
Somalia	2,534
Sudan	11,126
Swaziland	293
Tanzania	4,335
Togo	1,223
Uganda	1,405
Zaire	8,630
Zambia	6,400
Zimbabwe	2,512

<sup>a/</sup> Total external debt, including short-term and use of IMF credit.  
Source: World Bank, World Debt Tables, 1988-89 edition, Volume II.

TABLE 16C

DEBT STOCK OF DEVELOPING COUNTRIES<sup>a/</sup>:  
ASIA, 1987

Country	US\$ millions
Bangladesh	9,506
Bhutan	41
Burma	4,348
China	30,227
Fiji	466
India	46,370
Indonesia	52,581
Korea, Republic of	40,459
Laos, People's Democratic Republic	736
Malaysia	..
Maldives	73
Nepal	947
Pakistan	16,289
Papua New Guinea	2,711
Philippines	29,962
Singapore	4,491
Solomon Islands	89
Sri Lanka	4,733
Thailand	20,710
Vanuatu	135
Western Samoa	80

<sup>a/</sup> Total external debt, including short-term and use of IMF credit.

Source: World Bank, World Debt Tables, 1988-89 edition, Volume II.

TABLE 16D

DEBT STOCK OF DEVELOPING COUNTRIES<sup>a/</sup>:  
NORTH AFRICA AND THE MIDDLE EAST, 1987

---

Country	US\$ millions
Algeria	22,881
Egypt, Arab Republic	40,264
Jordan	4,564
Lebanon	496
Morocco	20,706
Oman	2,879
Syrian Arab Republic	4,678
Tunisia	6,909
Yemen Arab Republic	2,389
Yemen, People's Democratic Republic	1,724

---

a/ Total external debt, including short-term and use of IMF credit.

Source: World Bank, World Debt Tables, 1988-89 edition, Volume II.

TABLE 16E

DEBT STOCK OF DEVELOPING COUNTRIES<sup>a/</sup>:  
SOUTHERN EUROPE AND MEDITERRANEAN, 1987

---

Country	US\$ millions
Cyprus	2,016
Greece	23,120
Israel	26,332
Malta	295
Portugal	18,245
Turkey	40,818
Yugoslavia	23,518

---

<sup>a/</sup> Total external debt, including short-term and use of IMF credit.

Source: World Bank, World Debt Tables, 1988-89 edition, Volume II.



TABLE 17

**MILITARY EXPENDITURES AND  
OFFICIAL DEVELOPMENT ASSISTANCE (ODA), 1987**

Country	Military expenditure as percentage of GDP	ODA as percent- age of GNP
<b>Donor Countries</b>		
France	4.0	0.74
Germany, Fed. Repub. of	3.1	0.39
Italy	2.4	0.35
Great Britain	4.7	0.28
Canada	2.1	0.47
USA	6.4	0.20
Japan	1.0	0.31
Australia	2.6	0.33
OECD	4.0	0.35
USSR <sup>a/</sup>	15 to 16	0.44
<b>Receiving Countries <sup>b/</sup></b>		
Ivory Coast	1.2	2.9
Nigeria	1.0	0.3
Mozambique	10.5	16.7
Zaire	1.3	10.7
Zimbabwe	6.5	5.1
Egypt	6.2	4.7
Israel	9.0	6.2
China	4.0	0.5
India	3.8	1.1
Pakistan	6.8	2.6
Argentina	3.4	0.3
Chile	6.8	0.1
Costa Rica	0.7	5.7
El Salvador	3.8	10.2
Nicaragua	44.1	2.3
Paraguay	1.1	1.5
Peru	8.0	1.2

<sup>a/</sup> For the USSR, Net Material Product is used rather than GNP. USSR military spending is subject to a high degree of uncertainty.

<sup>b/</sup> For the receiving countries ODA is 1986-87 average as a proportion of 1986 GNP.

Source: Stockholm International Peace Research Institute.

NOTE: Great caution is needed in making cross-country analyses of the ratios above, because military expenditures are measured differently due to different structures of military forces, different inclusions of collateral costs, and even due to different military traditions. Moreover, they are often incurred due to regional security problems and because of complex security perceptions. In some cases the figures on military expenditures are obviously based on estimates by the Stockholm International Peace Research Institute.

## BIOGRAPHICAL NOTES

- HELMUT SCHMIDT  
Publisher of Die Zeit;  
former Federal Chancellor of the  
Federal Republic of Germany.
- ABDUL AZIZ AL-QURAISHI  
Chairman of Saudi International  
Bank;  
former Governor of the Saudi  
Arabian Monetary Agency (SAMA).
- BERNARD T.G. CHIDZERO  
Senior Minister of Finance, Economic  
Planning and Development,  
Zimbabwe;  
former Deputy Secretary General of  
the United Nations Conference on  
Trade and Development (UNCTAD).
- BERNARD CLAPPIER  
Former Governor of the Bank of  
France and Vice-President of the  
Bank of International Settlements  
(BIS).
- JANOS FEKETE M.P.  
Chairman of the Reform Committee  
of the Hungarian Parliament;  
former First Deputy Governor of the  
Bank of Hungary.
- FRITZ LEUTWILER  
Co-Chairman of the Board of  
Directors of ABB Asea Brown  
Boveri;  
former President of the Bank for  
International Settlements (BIS),  
Chairman of the Governing Board of  
the Swiss National Bank.

ROBERT S. McNAMARA

Corporate Director;  
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former Vice Minister Economic  
Planning Agency, Japan.

D. W. NAM

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Finance, the Republic of Korea.

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NITISASTRO WIDJOJO

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MICHAEL KRAKOWSKI, DRAGOLJUB NAJMAN, UWE PLACHETKA



Foreign and Commonwealth Office

London SW1A 2AH

28 July 1989

Dear Charles,

Capital Flows to Developing Countries

Thank you for your letter of 12 June. *Ref*

Dr Leutwiler will present a copy of the report "Facing One World" to the Prime Minister during his call on 2 August. The following briefing has been prepared in consultation with HM Treasury and both wings of the FCO. I enclose a copy of the report for reference.

The report is the product of an independent group of eminent persons, under the chairmanship of Helmut Schmidt. It was set up by the Japanese after an initiative they had mounted at UNCTAD VII (1987) failed to gain support. The group's report, which was published on 3 July, is commendably brief and clear. But some of the analysis is contentious, and some of the report's recommendations are at odds with Government views.

The report is helpful in drawing attention to the responsibility of the people and leaders of each country for their social and economic advancement. The comments it makes on the need for developing countries to give priority to the creation of a favourable economic environment are wise. The Group also make useful comments on the need for the Japanese to provide more aid, and for Eastern Bloc countries to take steps to integrate their economies more fully into the world economy. The report's promotion of the virtues of free trade is wise, but it would have helped if its recommendations had been related to the current GATT Round. The recommendation that OECD countries should promote private investment in developing countries is sensible.

A number of the report's recommendations are less helpful. The report's call for developed countries to bear the costs of measures necessary to protect the global environment in order to compensate for causing the damage in the past is unacceptable. The recommendation



that financial support be given to developing countries in the fight against drug trafficking is fine. But the prescription that this commitment be enshrined in a binding international agreement ignores the existence of the UN Fund for Drug Abuse Control, and the three UN Conventions on drug issues (the most recent of which is only seven months old).

The major part of the report deals with debt and aid. It rightly highlights the importance of LDCs' adherence to sound economic adjustment policies. It recognises the special needs of sub-Saharan Africa, and notes the debt relief arrangements agreed at Toronto and implemented in the Paris Club on the basis of the Chancellor's initiative. The report places heavy emphasis on the role of governments and international financial institutions in providing additional funds whilst letting the banks off relatively lightly. Since 1983 governments have provided more than 60% of total net flows to highly indebted middle-income countries whilst providing the bulk of money to the poorest countries. Official lenders should not substitute for private lenders in this way. The report, unhelpfully, proposes "new initiatives" and "new institutional approaches" to the problems of heavily indebted countries going beyond the recent Brady proposals.

The Prime Minister may wish to say that there is no need for new initiatives at present. She could say that she disagrees with the recommendation that a new IMF/IBRD facility is needed. Flows of new funds to developing countries should be channelled through existing institutions. But the report is right in emphasising the leadership of the IMF and IBRD in resolving debt problems. The report calls for a doubling of overseas development aid, and for an automatic mechanism for increasing aid expenditure. This would pre-empt national decisions on public expenditure priorities and is therefore unacceptable. Both propositions also ignore the important link between aid flows and the recipients ability to absorb new resources on such a scale. Another idea about which the Prime Minister may, if asked, express doubt is that of a major fund to support education and training 'for leadership' in Africa. It is a vague scheme which ignores the excellent work of existing institutions and would cut across existing national strategies for education and training.



### South Africa

You suggested that Dr Leutwiler's call would be a good opportunity to discuss South Africa. The Prime Minister might like to ask Dr Leutwiler about the current negotiations between the South African authorities and the commercial banks to reschedule the \$7.5 bn debt which falls due in 1990. The Anti Apartheid Movement has launched a campaign to dissuade British banks from rescheduling.

The Prime Minister might like to give Dr Leutwiler an account of her meeting with de Klerk. If Dr Leutwiler asks whether we foresee a further role for him she might say:

- that she is grateful for part he has already played. It has been very helpful in bringing home to the South African Government the need for change and the importance of release of Mandela.

- we now have direct contact with South African leaders. De Klerk recognises the need for progress through negotiations.

- we must now wait to see whether he can convert words into deeds.

I am copying this letter to Alex Allan (HMT) and Myles Wickstead (ODA).

*Yours,  
Stephen*

(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street

CTON POL: Brandt Commission P. 5.







FILE

SPW

cc PC

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

12 June 1989

Dear Sir,

CAPITAL FLOWS TO DEVELOPING COUNTRIES

Dr. Leutwiler is coming to see the Prime Minister on 2 August. His main purpose is to present the report of the Working Group set up under Helmut Schmidt's chairmanship by the UN Secretary-General on Capital Flows to Developing Countries. The meeting will also be an opportunity to discuss South Africa.

I should be grateful if the Foreign and Commonwealth Office could coordinate briefing on the Report with the Treasury and Overseas Development Administration and let me have it by 29 July.

I am copying this letter to Alex Allan (HM Treasury) and Myles Wickstead (Overseas Development Administration).

Yours sincerely,  
C. D. Powell

(C. D. POWELL)



cc LPS  
CWO

HL

bcc B1

10 DOWNING STREET

*From the Private Secretary*

13 July 1983

White Paper on the Government reaction to the  
Brandt Commission's Memorandum 'Common Crisis'

Thank you for your letter of 7 July. Subject to the views of the Leader of the House and the Chief Whip on timing, we have no objection to the publication of this White Paper. It would be helpful if you could let us know what date and time you propose for publication.

I am copying this letter to Nick Huxtable (Office of the Leader of the House) and Peter Moore (Chief Whip's Office).

W. F. S. RICKETT

P.H. Johnson, Esq.,  
Foreign and Commonwealth Office.

84



Foreign and Commonwealth Office

London SW1A 2AH

7 July 1983

W Rickett Esq  
10 Downing Street  
SW1

*Charlotte*  
*Could give*  
*checks with X and*  
*Y that they have*  
*no objection.*  
*17*

*Dear Willie*

WHITE PAPER ON THE GOVERNMENT REACTION TO THE BRANDT COMMISSIONS  
MEMORANDUM 'COMMON CRISIS'

We propose to publish the above White Paper before the summer recess. The draft is now being cleared by Departments and will then be submitted to Ministers with the hope of being sent to the printers on 15 July. Publication may cause the Opposition to press for a debate.

The undertaking to publish a White Paper was given by the then Secretary of State for Foreign and Commonwealth Affairs during his opening remarks on the debate on the Brandt Commission Report in the House on 18 April (Vol 41, Col 33). Production of the White Paper was held up pending the outcome of the election and UNCTAD VI.

In the circumstances I hope that you, and those to whom I am copying this letter, will be able to confirm there is no objection to the publication of this White Paper.

*Yours sincerely*  
*Philip Johnson*

P H Johnson  
Parliamentary Clerk

cc: D C R Heyhoe Esq  
Office of the Lord President of the  
Council and Leader of the House  
70 Whitehall  
LONDON  
SW1

P Moore Esq  
Chief Whips Office  
12 Downing Street  
LONDON  
SW1

*Willie*  
*Lord P's office have*  
*instructed FCO not to*  
*publish before the*  
*end of July. No*  
*comment from Whips*  
*Office*  
*Charlotte 11/7*



Foreign and Commonwealth Office

London SW1A 2AH

26 May 1983

From the Parliamentary Under Secretary of State

GR Joppen?  
Dear Tom

The Prime Minister has asked me to reply to your letter of 10 May about the Memorandum produced by the Brandt Commission.

I am sure you are aware that there was a full debate in the House in Government time on the 'Common Crisis' Memorandum on 18 April. In his opening speech on that occasion the Secretary of State welcomed the Memorandum and said that the Government accepts the principal message, that we live in an interdependent world.

The Government agrees with the Brandt Commissioners that solutions must be found to the difficult problems faced by some developing countries in the present world economic recession. Many of them have had to contend with severe difficulties, due to inter alia contracting export markets, low commodity export prices, high oil prices and interest rates, and mounting debt repayments.

Some important steps have already been taken. The meeting of the IMF Interim Committee in February was brought forward in order to take early action to strengthen the IMF in view of the current strains in the international financial system. The meeting, under the Chairmanship of the Chancellor of the Exchequer, set the seal on an impressive package of measures which will substantially increase the usable resources available to the Fund. The increase in quotas is due to be brought forward two years. This will be of major practical benefit to developing countries.

The United Kingdom is also actively involved in other areas covered by the Memorandum. We have ratified the Common Fund on commodities. We are already members of six international commodity agreements. We maintain a substantial and effective aid programme, and have supported the World Bank Special Assistance Programme. We share the Commission's view on the importance of resisting protectionism and maintaining the open trading system.

The Memorandum calls for renewed growth in the world economy. There are now tentative signs of economic recovery in the industrialised world. The upturn will need to be nurtured and sustained, but we hope that it will lead to an increase in world trade.

/...

Tom Torney Esq  
House of Commons  
LONDON SW1A 0AA



But despite the progress already made, there is no room for complacency. The points raised in the 'Common Crisis' will be considered at a number of international meetings this year, including the Williamsburg Summit later this month, UNCTAD VI in June, the Annual Meetings of the IMF and World Bank in September, and the Commonwealth Heads of Government Meeting in November. Britain will approach these meetings in a constructive spirit, with the aim of agreeing practical action wherever possible.

*Yours ever,*

A handwritten signature in dark ink, which appears to be 'Malcolm Rifkind', written in a cursive style.

Malcolm Rifkind



10 DOWNING STREET

THE PRIME MINISTER

13 May

Dear Mr. Torney.

Thank you for your letter of 10 May urging me to take action on the Brandt proposals at the Williamsburg Summit and at the UNCTAD Conference in Belgrade. I have asked Francis Pym to arrange for you to receive a reply direct on my behalf.

Yours sincerely

Raymond Whittam

Tom Torney, Esq., M.P.



File 8-1P

Tom TORNEY MP 13/6

10 DOWNING STREET

*From the Private Secretary*

12 May 1983

I enclose an exchange of correspondence between the Prime Minister and Mr. Tom Torney, M.P. I should be grateful if you could arrange for a Foreign Office Minister or Private Secretary to reply to Mr. Torney on the Prime Minister's behalf, with a copy for our records.

W. F. S. RICKETT

Christopher Greenwood, Esq.,  
Foreign and Commonwealth Office.

FROM: TOM TORNEY MP

C. 16-12/5



R115

HOUSE OF COMMONS  
LONDON SW1A 0AA

10th May 1983

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister.

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Dear Prime Minister,

I am receiving representations from numerous constituents regarding the Summit Meeting of Western Leaders both at Williamsburg and at Belgrade. On behalf of my constituents I wish to press you to take action on the Brandt Proposals. I would be grateful to know what is to be the attitude of you and the Government on these proposals.

Yours sincerely,

Tom Torney



## The Brandt Commission Report

*[Relevant document: Fourth Report of the Treasury and Civil Service Committee on International Monetary Arrangements: International Lending by Banks, House of Commons Paper 21-1 of Session 1982-83.]*

*Motion made, and Question proposed.* That this House do now adjourn.—[Mr. Goodlad.]

**Mr. Bob Cryer (Keighley):** On a point of order, Mr. Speaker. As you will see from the Order Paper, the Fourth report of the Treasury and Civil Service Committee on international monetary arrangements is relevant. Will you confirm, however, that that report is relevant only in so far as it is concerned with the main subject of the Brandt report? I ask because the report also mentions Argentina. A number of Opposition Members have pressed for a separate debate on the arrangements whereby the Government have helped to prop up the present regime in Argentina. The notation on the Order Paper that the Treasury and Civil Service Committee report is relevant is no substitute for a proper, full-scale debate on the arrangements that the Government have made in relation to Argentina.

**Mr. Speaker:** If the House decides that it wants another debate, that is up to the House. So far as I am concerned, the document is relevant.

4.12 pm

**The Secretary of State for Foreign and Commonwealth Affairs (Mr. Francis Pym):** I warmly welcome the opportunity provided by this debate to set out the Government's reaction to the Brandt commission's memorandum, "Common Crisis". It is an important document and I have no doubt that the debate will reflect that. I shall attempt to cover the main points today, but I am arranging for a White Paper to be published, which allows for more detail than is possible in a speech and which I believe will be helpful.

The memorandum is timely as it has a direct bearing on the work that we are doing to prepare for a number of major international meetings this year which will deal with different aspects of the problems raised in the memorandum. I am sure that the House will wish to express its gratitude to the hon. Member for Sheffield, Heeley (Mr. Hooley) for introducing a preliminary discussion of the subject on 24 March, and I am glad that the House now has the chance to give it fuller consideration.

At the outset, I pay tribute to the members of the commission for their work. They have produced a thoughtful, forward-looking and practical analysis of a notoriously complicated subject. In particular, I am sure that the House would wish to join me in thanking my right hon. Friend the Member for Sidcup (Mr. Heath) for his contribution.

The Government have already welcomed the publication of the report. It deals with many of the most grave and pressing issues which the international community faces at the present time and concentrates on proposals for practical action.

We certainly accept the central message of the memorandum—that we live in an interdependent world. Western Governments are preoccupied by the strength and persistence of the present prolonged world recession and the very high levels of unemployment. Adjusting to the

realities of the 1980s has not been easy for any of us, but the effects on developing countries have been particularly severe. Many have encountered the painful consequences of contracting markets, low commodity export prices, high oil import prices, record levels of interest rates and mounting debt repayments.

Solutions must be found to the problems that face us all, but no one country or group of countries can provide the answer alone. As the title of the memorandum puts it, what is needed is "co-operation for world recovery." I do not think that any country is more aware of that than the United Kingdom. We have major interests at stake. Our prosperity is deeply bound up with the wellbeing of our markets in both developed and developing countries.

Nearly a quarter of our trade is with the developing countries, and our banks and financial institutions also do substantial business with them. There is of course a political dimension as well. We are not, and cannot be, indifferent to the political stability of the developing countries which account for so large a proportion of the world's population. We are particularly concerned with sustaining the political and economic strength of our partners in the Commonwealth. Indeed, the Commonwealth is playing an increasingly important part in discussion of economic co-operation and in exploring ways of improving the North-South dialogue. There is continual exchange of ideas about economic co-operation within the Commonwealth, at the Commonwealth Finance Ministers' meetings and Heads of Government meetings, and also in the ministerial meetings often arranged to coincide with meetings of other international organisations.

The long-term solution to the problems can only be a return to sustained growth, which must be achieved without rekindling inflation. We should be doing the greatest disservice to the developing countries as well as to ourselves if we plunged once again into an inflationary cycle. In Britain the Government have laid the basis for sustained growth by the success of our policies in combating inflation. There are now signs that the worst of the problems are beginning to abate. 1983 should see at least the beginnings of recovery in the major economies, and an upturn in world trade, but the general recovery will need to be nurtured very carefully indeed if it is to be sustained.

The essential components of a strategy for recovery are measures to strengthen the international financial system, to manage international debt in an orderly fashion, to preserve the open trading system, and to give greater stability to exchange rates and interest rates.

The Brandt commission gives top priority to the need for immediate measures to strengthen the international financial system. In fact, much progress has already been achieved. In February the International Monetary Fund's interim committee, under the chairmanship of my right hon. and learned Friend the Chancellor of the Exchequer, agreed on measures which will substantially increase the usable resources available to the fund. There was also agreement that implementation of the quota increase should be brought forward two years to the beginning of next year. Many participants in the meeting have paid tribute to the skill that my right hon. and learned Friend displayed in bringing about this speedy and practical agreement.

Looking ahead, the interim committee also agreed that there should be a review of the possibility of a further

*[The Secretary of State for Foreign and Commonwealth Affairs]*

allocation of special drawing rights, and we welcome this. The Government will certainly approach the subject with an open mind, and we have of course noted the arguments put forward by the Brandt commission for a substantial allocation to increase global liquidity.

We agree with the memorandum also on the need for the International Monetary Fund to pay close attention to the economic and political realities of countries when deciding on the conditions which should accompany a lending programme. Countries borrowing from the fund must be encouraged to adopt sound economic policies that can be sustained, and the fund must continue to keep in mind the political and social realities in these countries. Clearly, very difficult judgments are involved, but in our experience the staff of the fund go to great lengths to negotiate workable programmes which try to strike the right balance. On the whole, we think that the system has worked well and the judgments made have been broadly correct. We also agree that countries should be encouraged to take their problems to the fund at an early stage.

The memorandum emphasises the importance of development assistance. This year we expect the total United Kingdom aid programme to reach £1,129 million. This is an increase of almost 10 per cent. over 1982-83 which, in the light of the expected level of inflation, should mean a useful increase in real terms. I feel sure that the House will approve.

Our aid—and that of the OECD countries generally—is criticised by some people for being too little, and by others for being too much. The former argue that it is simply a matter of aid volume—that the more resources are transferred to the developing world, the faster the poorer countries will catch up with the others. I think that is far too simplistic a view. Other people take the opposite view, arguing from a position of pessimism about our ability to help developing countries at all in real terms. They question whether it would not be better to use these funds for something closer to home.

I think that both of those opposite views are unrealistic, but we should be clear that official aid is not and cannot be the main engine of development in poorer countries. It makes a vital contribution, particularly to the poorest countries but it is of equal and crucial importance that the countries themselves pursue sound domestic policies. Both elements are essential.

**Mr. Russell Johnston** (Inverness): Who are these people who argue for the reduction in aid and support?

**Mr. Pym:** Quite a number of people believe that our aid, and aid generally, is excessive. It is obvious that the Government do not agree with that view.

We believe that the considerable amount of money that we spend overseas is effectively used, and the provision this year represents a substantial increase. It is an increase which, like our aid programme as a whole, brings benefit to us as well. It is entirely right that commercial considerations should play a part in our aid decisions. Aid brings opportunities from which our exporters benefit in the short term. By aiding the developing countries, we want also to help build up our export markets in the longer term.

The memorandum wants emphasis to be given to the poorest countries—I think that we all agree on that. Britain's record is pretty good. About two-thirds of our

bilateral aid goes to the poorest countries, which is a higher proportion than the average for Western industrialised countries. The poorest countries obviously have difficulties in attracting commercial lending and private investment, and the type of concessional finance provided by aid is especially valuable and welcome to them. All aid to those countries is in the form of grants.

The memorandum recommends that donors should cancel outstanding loan obligations which are due by the least developed countries. We have been at the forefront of moves to waive debts, not only from those but from other developing countries. In most cases we have converted loans to grants, thus assisting their debt ratio and foreign exchange ratio. We accept the various aid targets that are mentioned, but, like our predecessors, are not committed to a timetable for achieving them.

Traditionally, we have also been generous contributors to the World Bank, regional development banks and United Nations agencies. We took the lead among the major donors in releasing our full contribution to the World Bank's International Development Association for its sixth replenishment when the United States congress refused to authorise the full United States contribution. We have made clear to the United States Government the importance that we attach to a full United States contribution for the remaining period and we have constantly supported co-financing by the World Bank and the major commercial banks. We also support the new special assistance programme to speed up disbursements to those countries which are making a determined effort to sustain development despite their difficulties. We are strongly in favour of the World Bank's structural lending programmes.

We welcome the importance that the report attaches to the beneficial role of private investment to developing countries. The United Kingdom has also been in the lead in that regard. Total investment by the United Kingdom in developing countries in 1981 was £4,980 million—equal to 2.01 per cent. of our GNP. That is double the United Nations target of 1 per cent. for combined Government aid and private flows and is a substantial achievement. Moreover, £3,731 million of that sum was made up of private investment.

**Mr. Frank Hooley** (Sheffield, Heeley): I am a little puzzled by the Foreign Secretary's statement. I have repeatedly asked the Treasury, in the light of the abandonment of exchange controls, where our overseas investment is going. The answer has always been that it has no means of knowing. How, therefore, can the Foreign Secretary so confidently assert that the investment—I think that there is a large flow—is really going to the developing countries? If the information is known, will he kindly ask the Chancellor to answer my questions?

**Mr. Pym:** I shall gladly convey the hon. Gentleman's request to my right hon. and learned Friend the Chancellor. I simply asked him for the figures and am giving the House the benefit of the reply that I received.

The House will be aware that the present Lomé convention expires in February 1985. Negotiations for Lomé 3 are due to begin next September, and they will not be easy. Economic constraints and the demands of our bilateral and multilateral aid mean that we must be realistic about the financial resources that we can make available. We constantly endeavour to ensure that the substantial

resources that are provided by the Community are used effectively. The Lomé convention has become central to the Community's relationship with developing countries, more than half of which belong to the Commonwealth. Our objective is, of course, to secure a Lomé 3 convention that will allocate the funds in the most efficient and cost-effective way.

Nevertheless, the industrialised countries, the richer developing countries and especially the newly industrialised countries must pull their weight through both aid and trade. The newly industrialised countries can build upon existing regional organisations to which we, and other Western donors, have been substantial contributors. The aid that is already provided by OPEC through bilateral and multilateral channels has been valuable. I hope that the OPEC countries will continue to support the development of the poorer countries.

By contrast, the aid contribution of the Communist countries is meagre and almost entirely devoted to underpinning their political clients. Vietnam, Mongolia, Cuba, Afghanistan, Laos and Cambodia, accounted last year for 90 per cent. of the Soviet programme. Moreover, the programme was small. Despite exaggerated Soviet claims to the contrary, development assistance committee estimates show that Soviet aid in 1981 was a miserly 0.15 per cent. of the GNP. That is equivalent to only one third of the United Kingdom effort. Our own estimates of Soviet aid for 1982 show that it is not increasing as a proportion of GNP. In fact, during the past few years, the Soviet Union has been a net beneficiary from Third-world countries other than the handful of client states that I have mentioned. It will receive more from the repayment of previous loans than it will pay out. Thus, for the majority of developing countries, the Soviet aid programme is now a drain on the resources which are available for their development programmes.

**Mr. James Johnson** (Kingston upon Hull, West): Will the right hon. Gentleman emphasise what he has said? Whereas the Soviet Union principally exports MIGs and tanks, especially to Africa, China will build a highway in Somalia, a railway from Dar-es-Salaam to Mpika, fish farms et alia.

**Mr. Pym:** I note the hon. Gentleman's comment. There is no doubt that the export of armaments by the Soviet Union is part of the underpinning to which I referred.

The memorandum addresses itself to the need to deal with the present strains on the international financial system. I have been greatly impressed by the capacity and will of the international financial institutions to adapt to the new problems which have confronted them. In recent rescue operations, the International Monetary Fund and the Bank of International Settlements have successfully extended their roles as co-ordinators.

The debt rescheduling arrangements of the Paris club have been improved. Governments, central banks and commercial banks have had to learn to co-operate much more closely than before, and to deal decisively with each case as it arises. That is a real gain that I hope will be permanent. British institutions have played an active and substantial role, as has been widely acknowledged.

Recent experience strengthens the belief that existing institutions can be, and are being, adapted to cope with the new position. The packages put together for Brazil,

Mexico and the Sudan show what can be done. Obviously uncertainties remain, and there is no room for complacency, but provided that the international financial institutions, Governments, central banks and commercial banks all continue to show flexibility and a real willingness to act, and to act together, the system will adapt and be able to deal with the problems.

**Mr. Nigel Spearing** (Newham, South): The Secretary of State shows confidence in international institutions, but we must deal with programmes. Although a White Paper will be published, would it not be constructive, in view of the Williamsburg conference, to take the programme in "Common Crisis" and put it to the Williamsburg participants as a set of programmes for future discussion, perhaps at the UNCTAD conference at Belgrade?

**Mr. Pym:** The Williamsburg conference is an important summit meeting in this context, but it is not designed for or intended to relate to this aspect of "Common Crisis". Cancun, on the other hand, was called and convened for that purpose. The economic summit at Williamsburg will deal ostensibly with the main elements of the world economy. That will be its central feature and, therefore, that subject will obviously be considered, but I doubt whether the participants will be diverted for part of their time to deal specifically with it. The interest and purpose of the meeting is to help the world economy.

The memorandum also covers the other major element of the strategy that I mentioned: the preservation of the open trading system. It is right to do so because trade is ultimately more important than aid. The importance of the free market system cannot be over-emphasised. The more a developing country is able to export, the more it can stand on its own feet. Britain has played a major part in providing access to its markets to the products of developing countries, and recent figures show that the OECD countries as a whole account for about two thirds of the total exports of the developing countries. That is an important fact and figure to remember.

**Mr. Christopher Brocklebank-Fowler** (Norfolk, North-West): In view of the importance of trade will the Secretary of State consider the support that the Government are giving to the United Kingdom Trade Agency for Developing Countries? It is designed to encourage developing countries to seek access to British and west European markets, to see whether the additional expenditure of a modest sum might not help developing countries significantly to improve their access to Western markets?

**Mr. Pym:** In every way, and through every sort of organisation, we do all that we can to improve trade generally and especially with the developing countries. I shall certainly consider the hon. Gentleman's comments.

The record is a good one and we are determined to keep it that way. We strongly support the maintenance of free and fair trading. We should like to see all unnecessary barriers and distortions to trade dismantled. This was the basis of our approach to the GATT ministerial meeting last year. We must avoid at all costs a general relapse into protectionism. The European Community is one of the freest markets in the world, and must remain so. On commodities, which are an essential concern of developing countries, we have ratified the common fund and urged other countries to do likewise. We are active

[Mr. Pym]

participants in the six main commodity agreements, and we are ready to sign the international jute agreement. We would like the Community to join the international sugar agreement. We are contributors to the International Monetary Fund's compensatory financing facility and to the European Community STABEX fund. Both those facilities will be reviewed during the summer, and we shall take a full and constructive part.

**Mr. Peter Hardy** (Rother Valley): The Secretary of State's comments on trade do not seem to match page 107 of "Common Crisis", which states:

"The proportion of OECD imports of manufactures controlled by non-tariff measures was put at 17 per cent. in 1980 compared with only 4 per cent. in 1974. And it is worse for developing countries' manufactures; 30 per cent. of these exports to OECD were thus controlled in 1979 compared with only 11 per cent. in the case of OECD intra-trade."

**Mr. Pym:** The figures that I have just quoted to the House were reflected in the statistics given by Commissioner Haferkamp at a meeting between the European Community and ASEAN in Bangkok. I shall check the figures for the hon. Gentleman, but I believe them to be correct.

The final section of the memorandum contains recommendations on ways of improving the North-South negotiating process. They reflect the recommendations of a report produced last year by a Commonwealth group of experts, which brought the experience of the Commonwealth to bear. We have commended that report to our European partners and to the OECD. We should like to see more flexible negotiating procedures, more conferences on single issues, more discussions in small groups, and more co-operation between developing countries. Somehow we must get away from sterile arguments over empty communiqués, and strive instead for more limited agreements on practical matters. This is the spirit in which we shall approach the UNCTAD VI meeting in Belgrade in June.

The issues raised in this document will be under active discussion in UNCTAD VI, and in the other international meetings this year. The key events will be the OECD meeting and the Williamsburg summit in May, UNCTAD VI in June, the annual meetings of the IMF and the World Bank in September, and the Commonwealth Heads of Government meeting in November. I must tell the hon. Member for Newham, South (Mr. Spearing) that the recommendations in the memorandum are already being taken fully into account in our preparations for those meetings. We shall approach them constructively on the basis of the strategy that I have outlined. We shall be looking for practical agreements that will benefit developing countries, and we shall also arrange to publish a White Paper setting out in more detail the Government's position on the issues raised.

I return to the central themes of the Brandt commission's memorandum. The solution to the present difficulties of developing countries lies in an end to the world recession and the resumption of sound, lasting growth among industrial countries. That will enable developing countries to increase their exports, repay their debts and invest for the future. At the same time, we must give all the support we can to the developing countries in their efforts to bridge the intervening period without sustaining irreparable damage—

**Mr. Clinton Davis** (Hackney, Central): Will the right hon. Gentleman give way?

**Mr. Pym:** I have given way enough, and I am just coming to a conclusion. We must support developing countries in their efforts to bridge the intervening period without suffering irreparable damage, political, economic or social. All hon. Members would attach importance to that.

This task presents us with a formidable challenge, but all countries are dependent on each other. Like it or not, the world is in a state of interdependence, so the challenge must be met on its merits. It is a challenge that an enlightened promotion of our national interest would in any case require us to meet.

4.38 pm

**Mr. Denis Healey** (Leeds, East): After listening to the Foreign Secretary, we can all look forward to the publication of a White Paper giving the Government's reaction in detail to the recommendations of the Brandt report. However, I cannot understand why the Foreign Secretary did not present a White Paper to the House before this debate, since the second report was published nine weeks ago. I hope that he can assure us that it will be published well before the Williamsburg conference, so that the Government's position is known to their partners at that conference. Can he give us that assurance now?

**Mr. Pym:** I shall not at this point give that assurance. It will be published within about three or four weeks. I hope that I have made clear the approach that the Government take and the strategy that we are following.

**Mr. Healey:** That reply confirms my impression of the Foreign Secretary's speech. What he said reeked of complacency. He chose all the most respectable platitudes, but gave no sense of the scale and immediacy of the crisis now facing the world. He reminded me of the Spanish tourist in the Highlands who asked a local resident for the local word representing *mañana*, to which the reply was, "We do not have in our language any word that conveys quite that sense of urgency."

The second report of the Brandt commission records the failure of the industrial countries to take the first report seriously—a failure symbolised by the callous hypocrisy of Cancun. It also describes the consequences that inevitably followed, because every warning given by the Brandt report three years ago has come true. The circumstances are now worse than Brandt then envisaged because, on top of everything else, the industrial world has produced a crisis in its own financial arrangements that could still lead to the collapse of its private banking system.

The suffering that has followed in the Third world has reached new peaks. Income per head in most of the Third world countries has fallen for the first time since the war. There is starvation in many parts of Africa and Asia, and there are riots and civil war in Latin America. Political instability is increasing throughout the Third world. That is reflected in the chilling statistic, reported in the second Brandt report, that arms expenditure has risen from \$450 billion in 1980 to \$650 billion in 1982, and the increase in arms spending in Third world countries has been even greater than the increase in the industrial countries.

The Opposition believe that the crisis presents us with a moral challenge and that, because the industrial world

has a direct responsibility for the suffering in the Third world, we have a duty to help to remove it. The central message of the Foreign Secretary's speech and of the Brandt report was that the industrial world also has a great material interest in working with the Third world to get out of the crisis. The fall in imports by the Third world in the coming year is likely to cut one per cent. of the growth that would otherwise have been possible in the industrial countries. One out of six industrial jobs in the United States depends on exports to the Third world.

The second Brandt report is rightly entitled "Common Crisis". Unlike the first report, it concentrates on emergency measures that are urgently needed to prevent a catastrophic further deterioration, while still insisting on a framework of global negotiations between North and South. I hope that the Minister, in reply, will assure the House that the Williamsburg summit will accept, and will be asked by the British Government to accept, the emergency programme as a basis for negotiations with the Group of 77 at the UNCTAD conference in Belgrade which follows a few weeks later.

The urgency of the crisis is imposed by the dynamics and scale of the financial crisis that it includes. The financial crisis now facing the industrial world is the inevitable consequence of the shallow monetarist policies pursued by most Western countries over the past few years. Those policies have brought about the greatest recession since the 1930s and the highest interest rates over the longest period in recorded history.

This has inflicted a double blow on the Third world. On top of having to absorb the dizzy increase in the price of oil inflicted by the OPEC countries, it has had to absorb a similar increase in the price of money to buy the oil inflicted by the industrial world. The suffering of the Third world today owes at least as much to the increase in the price of money that the Third world needs from the West as it does to the increase in the price of oil.

The consequent recession has cut demand for the commodities that are the main source of income for the Third world and cut the price that the commodities command to the lowest for 30 years. As a result, Third world countries have seen a collapse in their earnings at the same time as high interest rates in the industrial world have meant a staggering increase in the cost of servicing their loans. For the past nine months, they and their creditors have been wrestling with the risk of default, which is inevitable unless either their debts are rescheduled or they are allowed to borrow more, or both.

This process has been well described in detail in the fourth report of the Treasury and Civil Service Select Committee, but it is not unexpected to many of us. Contrary to what is stated in that report, it was foreseen in 1979 not just by Mr. Rimmer de Vries, who is given credit for it—he is the chief economist of the Morgan Guaranty Trust Company of New York—but by many in the British Parliament—by my noble Friend Lord Lever, by the right hon. Member for Sidcup (Mr. Heath) and by myself. We have all been warning the world of this risk since the autumn of 1979. We had sniggers from the Conservative Benches then, just as we are getting them now.

The Government's first White Paper on the first Brandt report included the following statement:

"The Government believe strongly in the merits of the present world economic system, with its wide reliance on open markets for trade and financial flows."

It is no secret to any of us that the Government's basic economic policy has been founded on a profound conviction of the magic of the market place. The irony is that that has produced a private banking system that can survive only by lending ever more money to bad debtors and that is being bullied into doing so by central banks and international institutions whose function is to guarantee their prudence, not their profligacy. That is what the magic of the market place has done for the international banking system.

So far, the international banking system is a ship that is just keeping afloat, but it is springing new leaks every day. Even as we speak, the Central Bank of Brazil is meeting a group of creditors in London and threatening a moratorium on its debts if it does not get more money. I have no doubt that the Governor of the Bank of England is trying to persuade the private banks in London, against all the rules of banking prudence, to provide the extra money.

There is no doubt—we can all pay tribute to the skills still available in the private banking system—that the rescheduling operation has been successful, but it has so far depended critically not just on international institutions, such as the International Monetary Fund and the Bank for International Settlements, but on the unique skill and experience of two individual central bankers—the noble Lord Richardson and Mr. Paul Volcker, chairman of the Federal Reserve Bank. She who must be obeyed has decided to replace Lord Richardson this summer by a man who has run a successful lawnmower company and who told the world, the week after he was appointed Governor of the Bank of England, that the world banking crisis—if there ever was one—was over. I am afraid he will find that his responsibilities as Governor of the Bank of England are a lot more bother than a hover.

Mr. Volcker, the other pillar of the rescheduling operation, is now a target for attack by the sado-monetarists and the supply-siders in Washington. There is grave danger that he will be removed in August and replaced by a political push-over of limited banking experience. I warn the House that the risks to the international banking system, if Mr. Volcker also disappears in the second half of this year, will be very grave. I know no one in Wall Street or the City of London who does not share that view. But even if Lord Richardson and Mr. Volcker were both to stay in post, the measures taken fall far short of what is needed.

Rescheduling of the type that we have had so far is like applying sticking plaster to wounds that require surgery. Of the list of proposals rightly made in the second Brandt report, so far only one has been adopted. I welcome its adoption. It is the extension of the great general agreement to borrow to all members of the IMF and not only to the richer industrial countries. But the increase in quotas is only 50 per cent. and not 100 per cent. as recommended. It does not come into operation until next year. There is so far no agreement in the IMF that it should be able to borrow from the capital markets, and there is strong resistance in most countries—I hope that we shall get some assurance about the attitude of the British Government when the Minister replies—to a new allocation of special drawing rights weighted heavily towards developing countries. That being so, it is very unlikely that the IMF will have enough money in time to take over enough of the burden from the private banks,

[Mr. Healey]

especially as the small and medium sized private banks are getting out of lending to foreign Governments while the going is good.

We now risk seeing a very big fall in lending by private banks to the Third world after a series of years in which they have depended very heavily on a big increase in lending every year. If the happens—and there is no reason at the moment not to expect it—there will be a collapse of imports by Third world countries and very probably default by one major country. Such a default could lead to a very rapid chain reaction which could bring down the private banking system. We would then see fewer sniggers on the Conservative Benches.

On top of those risks there is the fact, to which the Foreign Secretary did not refer, that the large and sudden fall in the price of oil which has taken place in the last month, welcome as it is in the medium term to all countries, has imposed immediate additional burdens on the big debtors who produce oil—Mexico, Venezuela, Nigeria and Indonesia—all of which, incidentally, until the last month or two, were very big importers of manufactured goods from the Western world.

It is very doubtful now, even if the oil price does not fall further—and it may well fall to \$25 or \$30, or even, as the chairman of BP suggested, to \$13 a barrel—whether those countries will be able to carry out the adjustment programmes to which they pledged themselves when even countries such as Brazil, which benefit from the fall in oil prices, have seen riots in the streets and invasion of the presidential palace. The urgency of the situation revealed by those facts was in no way reflected by the speech of the Foreign Secretary.

The greatest strains are certain to fall on parts of Africa, particularly just south of the Sahara, and parts of Asia such as Bangladesh and Bhutan, where the great powers have few direct interests to protect. For them aid is the only possible channel for assistance. I think that the Foreign Secretary recognised that. It is the main function of the International Development Association, which is so threatened at the moment by the American Congress and by cuts already accepted by the American President. But the most dangerous consequences could come in Central and South America, and particularly in Central America.

It is very disturbing to Opposition Members that the United States seems to be tempted to try to solve the economic and social problems, which it is largely responsible for inflicting on the countries of Central America, by brute force and military intervention. When people talk of Finlandisation, I must say that I would feel much happier these days to be a citizen of Finland than a citizen of Nicaragua [Interruption.] Oh, yes. Conservative Members know very well that the United States Administration at this time is financing armed action from Honduras against the legal Government of Nicaragua, and, we read in the newspapers, is threatening similar action against Cuba and other countries in the area. The United States, in its policies in that part of the world, is a recruiting sergeant for communism.

There is no mystery about the measures that are needed. They are set out in detail in the report that we are debating. They are not revolutionary Marxist proposals. I doubt whether the right hon. Member for Sidcup would have endorsed them if they had been. They are not even extreme Keynesian demand management proposals. They have

been supported by sober-sighted people such as the editor of the *Financial Times* and, indeed, Mr. Paul Volcker, the chairman of the Federal Reserve Bank in the United States.

The first proposal is that the debts of the poorest countries should be cancelled. As the Foreign Secretary said, the British Government in 1978—I am glad to have been a member of it—cancelled the debts of the poorest countries at that time. I hope that the right hon. Gentleman will follow that example and will press his friends at Williamsburg to do so.

The second proposal is that we should provide more soft loans through IDA, but at present even the meagre pittance recommended by President Reagan is being held up by the United States Congress. That is a tragedy and a crime against the poorer people in the world. It is particularly disappointing behaviour by a country which still spends more on potted plants than on foreign aid.

The third proposal is that all countries should aim at achieving 0.7 per cent. of gross national product in official aid in the next five years. The Labour party has committed itself to achieving that. I believe that it is the only British party that has done so. The Government are still outrightly refusing to give any indication of how they will move in that area. [Interruption.] With great respect, the Foreign Secretary knows very well that the Labour Government restored the cut within a year. The Conservative Government cut aid by 20 per cent. in their first two years. I do not think that the right hon. Gentleman is prepared to quantify in real terms the increase that the Government are now offering. The Treasury has not been quite as frank with him on this matter as it has been concerning the direction of our overseas capital flows in recent years. Some of us will be taking a great deal of interest in that aspect in future debates.

**Mr. Brocklebank-Fowler:** Will the right hon. Gentleman clarify the Labour party's undertaking to reach the United Nations' sponsored aid target of 0.7 per cent. and then to work towards a further target of 1 per cent.? Can he assure the House that he is talking about such an increase within a five-year Parliament? Will he accept that he did not say that it would be within a five year Parliament—

**Mr. Healey:** That is what I said.

**Mr. Brocklebank-Fowler:** If that is what the right hon. Gentleman is asserting, that is fine. Will he also accept that the SDP has committed itself to reaching that target by five annual increases?

**Mr. Healey:** The House will make its own judgment whether the SDP is in a position to fulfil an undertaking of that nature. The House will recall that I said that we would do so within a five-year period before the hon. Gentleman rose to ask me his otiose question.

There is also a case—although I understand the case against it—for seeking to convert the large volume of short-term loans at high interest rates, which the developing countries are having to carry, into long-term loans at low interest rates. Some interesting specific proposals for action in that direction have been made recently, notably by Mr. Rohatyn in New York.

All those measures are required simply to avoid imminent disaster; none of them, even together, is sufficient to get the world out of the crisis that we are

debating. There is no chance of the Third world paying its way again or even servicing its existing loans, however draconian the adjustment programmes that they accept are, unless the industrial world achieves much faster and more sustained growth than is now in prospect. I think that the Foreign Secretary accepted that in his speech. Indeed, he seemed to imply it in, if I may say so, a slightly more interesting speech that he made at a recent meeting of the Bow group, from which I shall quote in a moment.

At present, the Western countries believe that their recovery will be slow and spasmodic at 1.5 per cent. this year and perhaps more next year, but depending on how this year goes. There will certainly not be enough growth to stop unemployment rising and, therefore, to stop the pressures for protectionism increasing over the period ahead. No single country can do much better for itself for long on its own. I agree with the right hon. Gentleman about that. What is needed is a collective programme for growth from the major industrial countries, led by those countries which have already achieved a healthy balance of payments and low inflation.

One great weakness of the post-war economic system—a weakness that must be set against its achievement in producing a golden quarter century of high growth and low inflation—is that it failed to impose on the strong countries responsibilities and obligations similar to those which it imposed on the weak. The result was that the weak countries were asked to achieve surpluses when the strong countries were refusing to accept deficits. That, of course, is impossible, as Mr. Volcker pointed out before he went to Washington when he was still working at the New York Fed.

There is a growing recognition of that obvious logical truth—that if the weak countries are to be expected to correct their deficits the strong countries must be obligated to accept larger deficits. That received wider recognition by all countries recently in the United States. Mr. Shultz, Mr. Regan, the Financial Secretary, and even the guru of sado—monetarism, Mr. Berel Sprinkel, in an ill-timed press conference in Paris, expressed the same view a few weeks ago.

When those views were put to the Chancellor of the Exchequer he turned them down flat. In his Budget speech on 15 March he said:

"It is sometimes suggested that countries which have made most progress against inflation should speed the recovery process by a resort to reflation. But nothing could be more dangerous for recovery."—[*Official Report*, 15 March 1983; Vol. 39, c. 135.]

That statement is the death knell for the chance of growth in the West and it is a death knell for the chance of the Third world countries ever getting out of the bottomless pit into which we have flung them.

The Foreign Secretary sounded a little different in the speech that he made a week or two ago to the Bow group. I was fascinated by that speech because the Foreign Secretary's position on these matters is a great deal more agreeable to me than that of the Chancellor of the Exchequer. However, I was not clear whether in his speech to the Bow group he was a wet in dry clothing or perhaps a dry in a wet blanket. I shall quote from what he said to explain my puzzlement. He started off with a bang when he said:

"Internationally, the major industrialised countries must demonstrate that they have a clear coherent and credible strategy for bringing about recovery."

The echoes of that bang were just dying away when it turned a few seconds later into a whimper. He said:

"We should therefore be working, however discreetly, towards the idea that the countries which have got their house in order—notably Germany and Japan—surprisingly, he did not mention his country—should be aiming for growth based, initially at least, on domestic demand"

—that, I suppose, is reflation; what the Chancellor described as the sin against the Holy Ghost—

"rather than increased exports."

The Foreign Secretary was right to make that point. It is being made a great deal now by spokesmen for all the major countries with low inflation and a healthy balance of payments. But each is saying that the other should take the lead. The Germans are saying that it should be taken by the Japanese and British and the Japanese are saying that it should be taken by the Germans and the Americans. It is a case of "After you, Claude. No, after you, Cecil."

**Mr. Eric Deakins (Waltham Forest):** Does my right hon. Friend think that his quotations from the Chancellor of the Exchequer and the Foreign Secretary may account for the fact that there is no Treasury representative on the Government Front Bench? Nor is there a representative from the Department of Trade. That contrasts with the Labour Front Bench which is occupied by my right hon. Friend the Member for Stepney and Poplar (Mr. Shore) and my hon. Friend the Member for Batley and Morley (Mr. Woolmer), who is a Shadow spokesman on Department of Trade matters. Does not that show the difference in the seriousness with which the two parties view the problem?

**Mr. Healey:** My hon. Friend may be right but there is another possible explanation. It is possible that all Treasury Ministers have departed to the central courtyard off Great George street to attend a ritual hari kiri of the official who gave the Foreign Secretary the figures that the Treasury has previously refused to give the House.

All we have from the British Government is a little pre-election boomlet which is based on a fall in the pound which they tried desperately to avoid—indeed, they raised interest rates 2 per cent. in the hope of doing so—and a fiddling of the figures of public expenditure and the public sector deficit—that chicken has already come home to roost—in the hope that they would get away with a little reflation without the Prime Minister noticing.

According to the newspapers, the Government are already planning to take it all back. They are planning big public expenditure cuts in the autumn. That, we are told in this morning's newspapers, is the reason why the Government want to cut and run as early as possible before the boom bursts and the storm breaks.

It is possible to poke fun at the Government but the fact is that their position is a tragedy when one considers the crisis that we are debating. The Williamsburg conference, which is only a few weeks away, could have been a springboard for recovery in the industrial world. It should have been planned as such but it is clear that President Reagan wants to make it a sort of rich man's Cancun; a sort of media bonanza which will help his election prospects. It will be unprepared and unorganised; a series of fireside chats which will produce nothing except a ritual dedication to free trade by countries—as one of my hon. Friends pointed out—which have quadrupled their

[Mr. Healey]

import controls over the past four years with perhaps a little more intervention sanctified in the foreign exchange markets.

The Government should be taking the lead in this matter if they take the Brandt report as seriously as they say they do. Why does not the Foreign Secretary take a leaf out of the book of his noble friend Lord Soames who recently and sensibly proposed in a debate in another place that each of the countries attending the Williamsburg summit should present its own proposals for its planned individual contributions during the next 12 months for world recovery?

I do not understand why the Foreign Secretary does not follow the noble Lord, Lord Soames, on this subject. If he does not, it may not be long, according to the papers, before he follows him to the House of Lords after the next general election.

As to defence, Western governments have at last begun to recognise, at least verbally, that they must seek co-operation with their opponents to achieve a military balance at the lowest level of cost and risk. That is what the disarmament talks are all about. The Western governments must realise that in the area of economics they must seek co-operation between rich and poor to achieve an economic balance at the highest level of growth and employment. The failure to make progress on this topic is most disappointing to the Opposition and the absence of any sense of urgency or even understanding of the Foreign Secretary's speech has disappointed them most of all.

The problems that the world faces in disarmament at the moment owe much to the present attitude of the American Administration, although it is getting obsequious support from the British Government. The failure to make progress on economic questions is above all the fault of the Government. They have flatly turned down the proposals that have come in increasing numbers from Washington in recent months. That failure as well as all the others that I have mentioned are the reasons why unless the Foreign Secretary gives a different response in the winding-up, the Labour party will vote against the Adjournment.

5.12 pm

**Mr. Edward Heath** (Sidcup): I express my appreciation to the Leader of the House for having arranged this debate in Government time, and to my right hon. Friend the Foreign Secretary for his opening speech.

I am naturally delighted with the welcome that my right hon. Friend has given to the second Brandt report and the approval that he has expressed, without exception, to all of its major proposals. That is in contrast to the hostile reception that the Government gave to the first Brandt report, and therefore it gives me pleasure that this report has been given such support by my right hon. Friend.

I also wish to thank my right hon. Friend for his expression of gratitude to the members of the Brandt commission, and especially the compliment that he paid to myself. It almost became like old times.

The commission never had any intention of following up the first report with a second one. However, the commission met every year. When it met in Kuwait in January last year, the members came to the conclusion that after the failure of the Cancun summit it was essential to produce a further document. The first purpose was to

examine the position that had developed since the first report three years earlier; the second was to review the order of priorities for action which the commission set out in that report and to examine whether they still held good; and the third was to try to deal with some of the misconceptions that had arisen about the first report.

The second Brandt report was written in London under the supervision of the Secretary-General of the Commonwealth, and myself, assisted by Professor Robert Cassen. As we worked through the year, we found that we were forced to abandon our original intention. We state in the second report what has happened since the first report was written three years ago. In every instance the position both of North and South has become lamentably worse. After an examination of the priorities, the conclusion was that those priorities were right. The commission wanted to ensure that the matters dealt with in great detail in the first report had in no way changed.

An examination of the basic questions of health, clean water, education, general social services, clinics and so on in the developing countries is just as necessary as ever. Emphasis on the production of food by the developing countries is now more important than when the first report was written. Far fewer of the developing countries are self-sufficient in food than three years ago.

During the year priority had to be given to the financial position of the developing countries and the impact of that on the North. The House has heard much about that from my right hon. Friend the Foreign Secretary and from the right hon. Member for Leeds, East (Mr. Healey). Secondly, the commission had to concentrate on negotiation and the forms of negotiation. The commission had to state as specifically as possible how the proposals that it was putting forward could be acted upon. From the two speeches that have been made in the debate, it is apparent that this is a major issue.

The right hon. Member for Leeds, East was somewhat unfair to my right hon. Friend the Foreign Secretary when he said that my right hon. Friend approved of the proposals put forward by the Brandt commission but had not put forward any proposals himself and that if he did not there was a danger of his being sent to the House of Lords. That shows a complete misconception of modern politics. If the Foreign Secretary were to put forward a specific proposal, the danger of his going to the House of Lords would be infinitely greater. I therefore fully understand my right hon. Friend's position. I take a much more optimistic view of what he said. I profoundly agree that a solution will never be found to most of these proposals until there is an expanding world economy. That, therefore, must be the objective of Governments.

My right hon. Friend the Foreign Secretary said, with his customary courtesy, that the Williamsburg summit would be yet another tea party. I think the time is coming when not only politicians but the public as a whole will say "This is a complete failure of modern politics and a complete abdication of the authority of those in power." It is not possible to continue having summits at which not only are contradictory communiqués issued but no action of any type follows, unless the action is contradictory to that alleged to have been agreed. I believe that Williamsburg will be the test. If nothing results from Williamsburg to deal with these problems, the general reaction throughout the world—in Europe, North

America and Japan as well as in the other countries—will be a revulsion against such summits and an alternative means of obtaining results will be sought.

I wish to deal with the recommendations in the report. The right hon. Member for Leeds, East said that the financial crisis was foreseen in the first report. In some ways it came even more quickly than the commission thought. It never believed that the first country to go bankrupt would be behind the iron curtain—Poland—but the commission foresaw that several non-aligned and other countries would be in difficulties quite quickly. It was not thought that some of the big countries would be in such enormous danger so quickly. My right hon. Friend, the Foreign Secretary, in dealing with this point, referred to the important question of the connection of East-West and North-South relations. My right hon. Friend has pointed to the Caribbean. Nothing will be served by continuing to pile up arms if it is not possible to give sufficient economic resources to rescue the Caribbean from its present disgraceful position.

It is necessary to use our economic resources. Grenada has gone the way it has because it was not possible to help it maintain what we would regard as a desirable Government. The danger to Jamaica still exists, and the dangers in central Latin America are obvious for everyone to see. On the other hand, these countries can be helped at a price. If we want to see Soviet power limited, we must pay an economic price. There is already the danger that what the IMF is asking Brazil to do is just not bearable in that society, and that has already been seen in the riots in Sao Paulo.

That brings us to the question of conditionality. My right hon. Friend said that he fully appreciated the problems of these conditions. However, the IMF has not yet adapted itself to the requirements of the developing world in relation to the treatment that they receive. This again requires action. I said during my speech on the Budget that I was grateful to my right hon. and learned Friend the Chancellor for having helped by increasing the amount under the General Agreement to Borrow, as well as for agreeing to bring forward the negotiation on the IMF quotas. I said then, and I do so again, that we shall face a difficult political decision if Congress refuses the President what he is asking. He is asking for less than a half of what is proposed in the Brandt report—a 100 per cent. increase in quotas. If the United States Congress is not prepared to approve that, it should not be allowed to block the rest of the world in going ahead with what is necessary for the resources of the IMF.

This all comes down to resources. This year alone, the reserves of the developing countries will fall by about \$85 billion. That is the gap that must be filled in this year alone. The increase in quotas cannot possibly become effective before next year, and probably not until half-way through next year despite everything that my right hon. and learned Friend the Chancellor is doing.

Where can the rest of the resources come from? We have proposed that we should allow the IMF to go into the market. The developing countries do not like that very much because they regard the market as the last resort. Their view is, "If we do not like what the IMF says, that is the only other place that we can go." However, the commercial banks are now very loth to lend further to the developing countries, and for understandable reasons. It is, therefore, better to say to our friends in the developing countries, "Allow the IMF to go into the market and

channel the funds through the IMF into the developing countries, which the commercial banks are no longer prepared to do".

The commercial banks are now under tremendous pressure from the central banks to maintain their existing loans to developing countries. As we know, resistance to that will increase. The only answer is resources from the IMF.

We also proposed a special issue of drawing rights, which my right hon. Friend supported. We suggested that the developed countries should say, "Very well, we will undertake not to draw on the special drawing rights issue. We will allow it to be used for developing countries, according to their needs, under the control of the IMF."

The monetarists will criticise that as inflationary. In my view and that of the commission, it is impossible to argue that when world reserves have fallen \$200 billion and those of the developing countries by \$85 billion—a total of \$300 billion in such a short period—special drawing rights of up to \$50 billion can possibly be inflationary. It is anti-deflationary in the present situation, not inflationary.

If we take the view that any issue of drawing rights or resources for the IMF is bound to be inflationary, we shall merely go from deeper depression to deeper depression. That is why the argument for special drawing rights is now unanswerable.

In his letter to me when I sent him a presentation copy of the second Brandt report, the Chancellor told me that he will have this discussed in the autumn, but the autumn is another six months hence and by then we are bound to have another series of problems for the developing countries. There is no reason why this matter should not be brought forward for discussion now in the committee of 20 to try to get agreement.

From the summer of 1982 to the end of 1983, at least 40 developing countries will be in financial trouble. They will have to reschedule or default and go bankrupt. That is more than in the whole of the previous 25 years. That in itself sets out the scale of the problem of financing the developing world.

That is the immediate action that is required. The report goes on to describe medium-term action of up to two years as well as longer-term action. In the medium term, there must be rescheduling of these debts to put them on a better long-term basis. As the right hon. Member for Leeds, East has said, in the longer term these debts will have to be put on a lower rate basis to enable those developing countries to survive at all.

This is important for us because of the involvement of our own banking system. It is also important for the American banking system. The major American banks have investment in Latin America alone that is nine times their total capital. That explains their vulnerability. Washington policy is that if these countries get into a mess, they must get out of it.

That was all very well until the crises in Brazil and Mexico. In Brazil, the President attempted to win back Latin American support after the Falklands war with offers of loans and rescheduling, but he could not possibly afford to allow Mexico to collapse. The social and economic collapse of Mexico would have meant millions, if not tens of millions of Mexicans flooding across an uncontrolled border to look for jobs in the United States. Between 20 million and 40 million Mexicans already live in the United States, which many Americans think too many, and the

[Mr. Edward Heath]

thought of millions more flooding across the border with Mexico in disorder was more than could possibly be sustained by Washington. That was the real reason why suddenly, and late at night, the United States formed the package which at that time sustained Mexico.

Today, Mr. Shultz and Mr. Donald Regan are both in Mexico City discussing the present situation. Mexico still has a ghastly financial problem, and they recognise the importance of dealing with it on a longer-term basis. Therefore, the Western banking system is still extremely vulnerable.

**Mr. Hooley:** Is it not important to distinguish between two types of crisis, of which Mexico is one example? Basically Mexico is not insolvent, because of its gigantic natural resources of oil and silver. It has a liquidity crisis, not an insolvency crisis. The problem is one of time scale. It is not a basic weakness.

**Mr. Heath:** It is possible for the hon. Gentleman to make that distinction, but it is rather like a man with a splendid collection of pictures who cannot pay his debts because in the world situation he cannot sell his pictures.

Let me give a further statistic. The relationship of what is required of Mexico to repay debt and interest compared with its exports is 129 : 100. Therefore, Mexico cannot possibly pay back debt when it is due and the interest on it, let alone import anything else. That is why this is a crucial situation for Mexico, even with its natural resource of oil. Some of that was sold to the Americans as a strategic reserve to get Mexico out of the trouble it was in just before Christmas.

The second impact is on our trade. The IMF arrangements with Brazil reckon on a Brazilian surplus of \$6 billion this year because Brazil will resist imports. I do not believe that Brazil can possibly achieve a surplus of \$6 billion this year, and neither can Mexico, on any IMF arrangement. But that is done at the cost of imports from the North. That is why some of us are doubtful about the length of the present so-called revival in the economy in the United States and Europe. The developing world will be able to buy less and less from us until we solve the problems. That is where we are so closely interrelated.

It is now clear that the Gulf OPEC countries which accumulated large surpluses for many years are no longer doing so. My right hon. Friend the Secretary of State mentioned encouraging the Gulf powers to contribute to the resources required by the international organisations. If they are not already doing so, the OPEC countries will soon be drawing on their deposits to carry through their present development programmes. That will have an impact on the western banking system because it will have to meet the requirements of the Saudi and Kuwaiti withdrawals necessary to pay for the programmes that they wish to keep up. Nigeria has taken the other course and is not paying for its programmes. It operates a moratorium, which is forcing our contractors to withdraw from Nigeria. We are, therefore, suffering in the way that I have just described.

Action must be taken on the question of negotiation. Constantly in Britain, Europe and North America people say to me "We understand the proposals. We see what needs to be done, but how do we get it done?" That is in the mind of everybody who considers the issues, as well as in the minds of politicians.

We have pointed out a number of things. The first is that global negotiations to which the parties at Cancun agreed have been attempted for nearly 20 years since the first UNCTAD of 1964. They have achieved nothing. The American president said at Cancun "I do not want global negotiations, but if you want them, you have them." That is not conducive to success.

UNCTAD has been a disappointment to many of us. The British formed UNCTAD's institutions at the end of the 1964 conference and each developing country remembers that. That was soon affected by a bad attack of what I call "United Nations resolutionitis". The belief is that if a resolution is passed, that settles everything. In fact, it settles nothing. Until we move away from that attitude in the conferences we shall not make any progress.

The second matter to which we pointed was it is beyond human capacity for 153 nations to sit round a table and try to deal with the problems involved in commodity prices, access to industrial goods, the work of transnational companies, the formation of international institutions, their voting powers and resources, debts and so on. That cannot be done. The only answer is to find a way to break up the formula.

We looked to the conference on the law of the sea for an answer. In that case, 21 countries got together and said "Very well. We shall go about working out a solution that we think will be acceptable to everybody and then put it to the whole." The 21 countries divided into smaller groups to deal with technical aspects.

That is why we proposed that like-minded countries should get together and start negotiating on particular aspects which they believe they can tackle. That need not be limited to the North or to the South. Preferably they should be like-minded countries from North and South which would operate together. The problem is that the Group of 77 always believes that it will not make any progress unless it stands united. We must tell it that those in the North who do not want to make progress can use that attitude as an excuse for saying, "Why should we give the same to Mexico, Brazil, Singapore or Hong Kong as you say that we should give to Chad or Mali? Why should we give the developed countries the same as the sub-Saharan countries or Bangladesh require?" Such people have an excuse for taking no action. It is better for us to recognise the differences between the developing countries and treat them accordingly. We can do that by dealing with groups of like-minded countries. Such action requires initiative.

I hope that the Secretary of State will follow his approval of the proposals by taking deliberate initiatives in each of the spheres that we have mentioned. The Chancellor of the Exchequer should bring forward by six months the discussion on special drawing rights. We should deal straight away with the question of the IMF having power to go to the market to borrow in order to help the developing world. We should see whether we can help more of the developing countries by making their loans into grants. The Labour Government did that with 19 countries and Sweden did it with 29. Perhaps in that way we could relieve some of the burden. The countries concerned are mainly Commonwealth countries.

We must move to longer-term negotiations of loans through the international organisations which can then bear the brunt of the burden. I understand that Congress is opposing many of the suggestions on the basis that that will help the western banking system. If Congress is no longer prepared to act on the basis of idealism or moral

responsibility and is not prepared to act in self-interest, what interest can one put to it as a basis for its decision? That could be a real problem.

The initiative must be taken. I hope that the British Government will take that initiative at Williamsburg. They can take the initiative about the way in which negotiations are handled. We have more experience than any other country of that. The British Government could point the way.

I am grateful to the Foreign Secretary for the approval that he has expressed for our proposals. We have never suggested that they are the only proposals, or that they are all correct, but I am glad that my right hon. Friend has approved so many of them. I hope that he and his colleagues will follow that up by initiating specific action in terms of finance and negotiation at the Williamsburg conference. We do not want any more unconstructive discussions between the top seven. We want a process for reaching agreement about common action. That is the only way to deal with our common problem.

5.37 pm

**Mr. Michael Welsh (Don Valley):** One can speak on many of the issues involved in the "Common Crisis" report. One could comment at length on the recommendations in the report, but I do not intend to discuss them in depth because so many hon. Members want to contribute to this important debate. This could be one of the most important subjects to be debated in the House since I was elected in 1979.

I wish to deal with three parts of the Brandt report and to explain my reasons for my love of the Third world. I wish to discuss the arms race and the Third world, the energy sector and the agencies of help. Other hon. Members will have a greater knowledge than I of those important matters.

Brandt stresses how the weapons' burden is straining even the wealthiest nations. That great strain and waste affects the stability of states and society. It threatens them irrespective of ideology or system of government.

The Minister spoke of Russia not contributing enough. Russia is not making the effort that it should to help the Third world. However, Russia is being trapped in the arms race. It carries a heavy burden of arms, when it should be seriously negotiating disarmament so that it is possible for it to contribute to the Third world. I hope that the Government will not relent in their efforts to persuade the Russians to provide help for the Third world. The duty to do so rests on them and all other countries.

The world needs investment, and Third world countries need it especially. We must make the transition to a reasonably stable society, but we shall not achieve a stable planet unless there is investment in the Third world. There is a distinct link between aid to the Third world and arms limitation negotiations. If we do not reach an agreement on arms limitations, the underdeveloped countries will not get the aid that they desire. A clear pattern is formed, because the more money that is expended on arms, the less is channelled into aid for the Third world. That is strange in a world in which, according to the Brandt report, a child dies every two seconds throughout the year, through hunger and disease. In years to come students will wonder what happened on this planet to those in power to allow that to happen. It is right that we should know what is happening and try to stop it.

There are enough arms throughout the world to destroy the planet over and over again. It seems amazing that we should let a child die every two seconds while we spend too much on arms. Surely there should be the political will to effect a reversal. When it comes to negotiations, Britain is the most advanced country in the world. No other country has Britain's expertise and experience. Surely it is our job to give a lead and to ensure that the arms race is gradually run down and stopped. In the long run it is aid that will make the planet a safe place in which to live. It is clear that arms will never do that.

The Brandt report is rightly concerned about the lack of progress that has been made by means of arms limitation talks. When we consider the expenditure on arms and the amount that Britain devotes to aid, it is clear what the Brandt report was and is afraid of. The cost of armaments increases each year and the Government try to adhere to limits on the public sector borrowing requirement. If arms expenditure increases other expenditure must be reduced, and among the reductions, inevitably, is aid to the Third world. It is easy to picture a graph on which arms expenditure rises and aid expenditure decreases.

In 1978-79, defence expenditure, as part of the gross domestic product, was 4.4 per cent. Net aid, as part of the GDP, was 0.43 per cent. In 1982-83, defence expenditure, as part of the GDP, was 5.2 per cent. Net aid, again as part of the GDP, was only 0.35 per cent. Expenditure on aid, therefore, had decreased from about 0.43 to 0.35 per cent, whereas defence expenditure, over the same period, had increased from 4.4 to 5.2 per cent. I have obtained my information from the Library and I understand that it is based on the Government's estimates and figures.

The pattern of expenditure is similar in many other countries. The graph is similar in America. The more the Americans spend on arms, the less they spend on aid. Britain must provide more aid for the Third world and must take a leading part in negotiations aimed at securing arms reductions. I know that the Foreign Secretary is involved in these negotiations, and I know, too, that he agrees with the comments that I have made. We seem to have spent too long negotiating arms limitations and it is time that we saw some results from the negotiations. If the Brandt report is right on any one issue, it is right on this one: if we do not secure a reduction in arms, the Third world and the rest of the world will suffer. I hope that we can move in that direction and I hope, too, that the Minister will note my comments.

The first Brandt report focused considerable attention on the energy sector. Of course, there have been tremendous changes since the first report appeared. Even so-called rich countries are facing economic difficulties. Three years have passed since the first Brandt report appeared, but there have been no significant energy developments. There are good reasons why private enterprise cannot work with Third world countries in the energy sector. There are many reasons for that, including unstable Governments. If private enterprise cannot do so, Governments of all countries must make a concerted effort. They can do so by giving great care to the way in which they use their energy and to what they do with any surpluses.

In Britain alone we could do with a planned energy policy, and that is probably true of the whole world. The Brandt report is correct in saying that an energy organisation should be affiliated to the World Bank. We know that very little or nothing emerged from the Cancun



[Mr. Michael Welsh]

summit. However, all the participating countries agreed on a broad energy policy, except the United States of America. If the United States remains reluctant to go ahead with a new policy to help the Third world, or refuses to do so, other countries such as Australia, Japan and the European and OPEC countries must go ahead without it.

The way in which oil affects countries is staggering and sometimes unbelievable. Britain has oil, but it can be said without doubt that its economic position is not very good. Bangladesh, one of the poorest countries in the world, has no energy worth talking about and it, too, is in a bad economic condition. It seems uncanny that a country with energy can be in a bad way. Bangladesh, like other countries, must export to survive. However, about 80 per cent. of its exports are pre-empted by energy and fuel bills. Of the 20 per cent. that remains, 15 per cent. of the revenue from exports is used to service debts. Countries such as Bangladesh have to run as fast as they can merely to stand still economically, and it seems that as time goes on their economic health becomes worse. One of the principal reasons for this is a lack of energy. That is why the recommendation in the Brandt report for an energy agency is so important.

The reluctance of the United States to assist the Third world in the energy sector is no reason for other nations to stop short. I am sure that if the rest of the world takes the initiative it will not be long before the United States comes forward. A start must be made if we want to save the Third world. I hope that Britain will take the lead in the forthcoming international meetings. Even countries with substantial oil reserves are seeking help from the world institutions. That would never have been imagined three or four years ago.

Energy should be given top priority in discussions at world meetings, and I do not accept what the Minister said about that not being possible at forthcoming meetings. Pressure has been brought on the right hon. Gentleman in this House—which is the place to apply pressure on the Government—and I ask him to do what he can to see that the whole subject of energy and its distribution is discussed at world meetings and to strive to achieve the formation of an energy agency.

I agree with the Minister that trade is probably more important than aid, and we should like to see the Third world countries being able to manage on their trading ability. Many issues are raised in the Brandt report which time does not permit me to discuss, so I shall concentrate on the agency of aid. After all, the world economic and monetary system needs reconstructing. The Cancun meeting in Mexico in 1981 fell short of what had been expected. There was no real breakthrough and we are still in the same difficult position. Perhaps the time has arrived when we should be thinking of a new Bretton Woods. That would allow for a regrouping of countries, with developing countries being helped in new ways. I have no doubt that other hon. Members will wish to comment further on that subject.

I am also in favour of global negotiations, and I appreciate the right hon. Gentleman's comments about the difficulties there. However, where we can achieve international consensus, where we can discuss actions and the reactions flowing from them on other countries we shall be moving in the right direction. I see nothing wrong with global negotiations, and the new order of discussing

matters should move in that direction as quickly as possible. A new international economic order is needed, and the Third world countries should take part in its formulation. That is vital. The Third world countries had no hand in shaping the present world economic system. They are having to abide by its results and the system is fundamentally biased against them, and they believe that.

I appreciate that the sort of global negotiations about which I am speaking will take time to establish, so we must consider what can be achieved in the meantime. As I said, I shall concentrate on only one aspect of aid, and that is the International Development Association, which is one of the World Bank's lending arms. Although the IDA represents about one eighth of all its aid, it is vital, because it can respond more quickly in giving aid than any other agency. It also allows for discussions between the giver and the receiver. Because it is basically free from foreign policy and commercial pressures, it deals with aid differently from all other agencies. The Minister accepted in a previous debate the important fact that over 80 per cent. of its lending goes to low-income countries and that the rest goes to countries with incomes just above the low-income boundary.

I am commenting on the IDA in particular because it is a vital arm of lending, and I am sure other hon. Members will speak about other forms of aid. I do not believe that the future of the IDA is in doubt, despite the appearance of articles over the weekend casting a shadow of doubt over its future. I do not believe that Her Majesty's Government would allow that to happen. They have done a great deal, in difficult times, to support the IDA. I am sure they would not allow it to go to the wall in view of the vital part that it plays in supporting the Third world.

The seventh replenishment negotiations of the IDA will be coming up soon and, as Brandt says, it is imperative that there should be a generous response from all donor countries leading to a substantial increase in real terms in IDA funding. This is so important that it should be brought up at the international meeting of the United Nations Conference on Trade and Development in Belgrade in June. It could also be raised at the Williamsburg summit in May. I mention the latter because it is vital that America is tied to the seventh replenishment. It should play its role as the great nation that it is. The Americans are our friends and it is our job to tell them when they are going wrong. Accordingly, it is the job of this country and the leaders of the Government to inform America that it should play the game in supporting the IDA. As a great nation, it should increase in real terms its assistance to that agency, especially at this time of the seventh replenishment.

**Mr. Deakins:** Would my hon. Friend think it a pity, even if the United States cuts back on its contribution to the seventh replenishment of the IDA, for the British Government to try to reduce their share of that seventh replenishment, as is strongly being rumoured?

**Mr. Welsh:** I hope that those rumours are unfounded and that, when replying to the debate, the Minister will say so. It would be a terrible shame if they proved to be correct. Many people would look downcast on a Government who did not make a full contribution to a form of aid that is helping the poorest countries. I hope that, irrespective of the attitude of our friends the Americans, the Minister will give a categorical assurance that we will play our part and perhaps increase our aid in real terms. We must pave the way for other countries to follow.

I am not saying that this Government have been lacking in their attitude to the IDA; just that they could do more in giving leadership in the Third world. They have not been in the forefront in terms of leadership. Therefore, the assurance that I am seeking is that the British Government will lead the way at international meetings, so giving a lead in helping our brothers and sisters in need. We should be laying the foundations for a safe and hungry-free planet. The basis on which to build is the Brandt report. The Government should accept it and give an undertaking to do all that they can to implement its recommendations.

5.57 pm

**Mr. Robert Rhodes James (Cambridge):** I listened, as always, with close interest and attention to the hon. Member for Don Valley (Mr. Welsh) and I particularly noted his remarks relating to the arms trade and to a reduction in the overseas aid programme. He perhaps does not realise that I made my maiden speech in the House in December 1976 on the subject of overseas aid. On that very afternoon, the right hon. Member for Leeds, East (Mr. Healey), who is no longer in his place, announced a substantial cut in the overseas aid programme, upon which the then Minister rightly and properly resigned.

We did not realise at that time that that same right hon. Gentleman, while doing that, was responsible for the development of the Chevaline programme of £1 billion to develop our nuclear missile programme. He was also responsible for the expenditure of another £1 billion on two destroyers and three frigates two weeks before polling day in 1979 in what were, by a most extraordinary coincidence, three critical marginal seats. Therefore, although I am prepared to listen to moral lectures from almost anyone, I put the right hon. Member for Leeds, East very low down in that category.

In March 1980 I had the opportunity and privilege of initiating the first debate in the House on the first report of the Brandt commission. Perhaps because the subject was so fresh, it was, in my view, by far the best debate we have had on the subject so far. It gave increased prominence to a document which achieved a remarkable sale in this country, has been published in over 20 languages and has attracted large—often astonishingly large—audiences in Britain. I recall an occasion in my constituency when my right hon. Friend the Member for Sidcup (Mr. Heath) drew an audience of over 1,300 people. At my speeches, not just in my constituency but throughout the country, I have been surprised and gratified by the size of the audiences and the interest shown in this subject.

I felt strongly in 1980—it was the principal reason why I resigned eventually as a parliamentary private secretary at the ODA—that the Government had failed to grasp the profound importance of the central message of the report, however right they were in their objections, which I share, to certain of the recommendations. It was the one occasion when I felt that Lord Carrington initially misjudged not just the salient features of the report, but public reaction. He made amends subsequently, but it was uncharacteristic of him to miss, as he first did, what I believe was the significance of what I suppose we must now call Brandt I.

I and all the members of the Overseas Students Trust, who worked on the immensely large report under the chairmanship of Lord Carr, are profoundly grateful that

the Government have accepted the recommendations of our report in full. It represents a step towards the spirit of Brandt, and of internationalism, which is so crucial.

I appreciate that the Government inherited an indefensible position in 1979, but I felt that it was unfortunate that there was a movement too far in the other direction. I am profoundly grateful to my right hon. Friend the Foreign Secretary and his colleagues for recognising that fact and providing for the first time an overseas students' programme which will be fair, equitable and in the interests of the recipients as well as the donors and of higher education institutions in this country.

The significance of Brandt reports 1 and 2 is that they should have marked an end to the facile assumptions that the world today is as it was when the Pearson commission reported in 1968: that if only the so-called rich countries could meet United Nations aid targets to the poor, all would be well; that the transfer of lavish amounts of money and resources would meet the problems of the poor nations. Brandt spelt out that by 1980 the so-called rich were suffering massive economic and social pressures undreamt of in 1968; that many of the former poor countries were not just rich but, in some cases, immensely rich; and that the commission was dealing, and we are dealing, with a completely different world.

I am not convinced that the new report, which paints such a gloomy picture, is wholly right, because the world position, as that of our country, is uneven. I do not embrace all the proposals, but I am convinced that the overall message is clear and right: that it is impossible to separate the fortunes of the developed and developing nations.

The subject is so vast and complex that I want to concentrate on preventive medicine. As chairman of the "Stop Polio Campaign" of the Save the Children Fund, I was especially glad to see the commissioners' warm approval of the work done by it and other voluntary organisations in this country. There might have been greater recognition, however, of the fact that the Government have given support not just to the Save the Children Fund, but to Voluntary Service Overseas, of which I have had the honour of being a member of the executive for more than three years. I strongly support the commission's proposals that such voluntary organisations should have access to international funds on a matching basis. That is a critical part of the report's qualifications.

I find it remarkable and moving that a small British charitable organisation, such as the Save the Children Fund, has achieved and is achieving so much and the extent to which the British people are proud of it and give such generous support. The dedication of our staff in the field, not just in the Third world but in the United Kingdom and Northern Ireland, represents some of the finest aspects of our country. Alas, poverty, deprivation and the misery of children are not confined to the so-called Third world.

The polio immunisation programme has demonstrated what can be done by a small voluntary organisation. We operate now in eight countries—Malawi, Swaziland, Lesotho, Zimbabwe, the Philippines, Thailand, Burma and the New Hebrides. We are involved also in Indonesia and the Sudan. We have recently sent 300,000 doses of polio vaccine to Sri Lanka. Although it is impossible to calculate precisely, we estimate that more than 1.25 million children have now been immunised against and delivered from the fear of this scourge.

[Mr. Robert Rhodes James]

Creating the vaccine is a long and complex process. The difficulty is to ensure that the vaccine is refrigerated from the moment that it is created until it reaches the child. That is difficult enough in western Europe. When it is translated into the problems of southern Africa and tropical countries, the scale becomes unimaginable. The maintenance of the "cold chain" is one of the greatest problems. With the inspiration, genius and skill of relatively few people, we have resolved these problems. I pay tribute to my constituent, Sir John Butterfield, and Dr. Nicholas Ward, who is at the OBA.

To be afflicted by polio at an early age is grievous for anyone brought up even in a developed country. My sister contracted the disease when she was very young. It is often fatal and usually maims the victim for life. In poor countries, where the battle for survival is everything, to be so maimed at the beginning of one's life makes the disease eventually, if not immediately, fatal.

Those who argue that preventive medicine merely increases the population problem in developing countries reveal a heartlessness for which I should have thought the House would have little time. A disease such as polio means that even those who survive as children are deprived of being useful to themselves, their families and their societies in many cases for the whole of their lives.

One of the most remarkable achievements of the international community since the war—one could almost say in human history—was the elimination of smallpox throughout the world. It is crucial to emphasise that it was not just a technical achievement, but a triumph of political will. Every country was determined to eliminate smallpox, and it was eliminated.

I am convinced that what has been done with smallpox could be done for polio and diseases whose elimination we know is within our grasp. There are other equally devastating diseases, mainly in tropical countries, to which we do not have the answer. They provide a major challenge and opportunity for the international medical and scientific community.

Therefore, there are two categories: diseases that we know can be prevented and that we ought to prevent, and diseases that afflict tens of millions of our fellow citizens on this planet, to which we do not know the answer, but to which with international initiative, we could discover the answer. Could not we, with our unique and unequalled knowledge of tropical diseases, give a lead? Could we not take a leadership role in endeavouring to defeat those illnesses?

As a passionate believer in internationalism and what can be done and as a realist in representing those things that are impossible to achieve, I should like to address the mind of the House not simply to polio, but to other preventable diseases on which we could take a lead. We have unique knowledge about them. We have demonstrated that, through our small charitable organisations, we can achieve dramatic results. Could we not move on from those results to giving leadership, which will be accepted because of our predominant position in these areas? I know that we would have behind us the support and belief of the people of this nation that the interests and concern of our country, and the standards for which we stand, go far beyond the shores of these islands.

6.11 pm

**Mr. Russell Johnston** (Inverness): I am happy to follow the hon. Member for Cambridge (Mr. Rhodes James), who made a sane, humane and sensitive speech.

I welcome Brandt 2. I regret the Government's failure to respond to Brandt 1. I am afraid that I also regret the absence today of any real commitment, beyond the generally down-market rhetoric of the Secretary of State for Foreign and Commonwealth Affairs, to a different approach to Brandt 2.

The right hon. Member for Sidcup (Mr. Heath) said that since the first report three years ago the position had become lamentably worse. He does the whole House credit by the service that he has given to the Brandt commission. The House should pay great attention to what he said this afternoon. I shall return to some of the things that he said, which echo what he said in previous debates. I recall him remarking that a Government spokesman had said that if we left everything to the market, everything would be solved. He felt that one was bound to challenge that philosophy, particularly in this area.

Hon. Members on both sides of the House believe that we must put our own house in order first. However, they are perhaps not so vocal on the Opposition Benches. That brings us back to the 1930s, when the "beggar my neighbour" view was dominant. It led to a spiral of deflation and doom which, oddly and sadly enough, we were taken out of only by the war and taken into the inflation and increased activity that the war caused. God forbid that that should be the way out this time. This is an obvious thing to say. It is in Britain's interests to resolve the problems, because we are so dependent upon the Third world and import half our key industrial materials from it.

Brandt 2 is divided into five main headings—finance, trade, food, energy and dialogue. I shall make brief comments on each of those headings, which is the best approach. The demands about finance include resumed international growth and the stabilisation of exchange rates. It is all very well to call for growth. Calling for things and getting and knowing how to get them are different. Governments can, however, do something about the stabilisation of exchange rates. I should have thought that it is not good for Britain to continue to reject joining the European monetary system. That would be one small way to help to stabilise the world currency system. There is a need for a new Bretton Woods. Surely for us to continue to reject joining the EMS makes no sense.

In recent years the amount of British aid has been not very satisfactory. The latest percentage figures that I have been able to obtain tell me that in 1979 we gave 0.52 per cent. of GNP, 0.35 per cent. in 1980 and 0.44 per cent. in 1981. We were told by the Foreign Secretary that this year's figure would be slightly up on that of 1981. That is to be welcomed, although probably it will not be as high as the 1979 figure.

**Mr. Hooley:** The hon. Gentleman will be aware that the only reason why the quantity of aid is going up is that the reconstruction of the Falklands has been dumped on the aid budget and almost all the extra money that is being put into the aid budget for 1983-84 will be used to repair the damage done by that disastrous fiasco.

**Mr. Johnston:** I do not wish to speak about the Falklands today. My views are slightly different from those of the hon. Gentleman. His point about the effect on

the aid budget is valid, but I shall let it rest. I was saying that although there was an increase, for which the hon. Gentleman has an explanation, it is insufficient.

Liberals have long been committed to the United Nations' target. I should like to say to the right hon. Member for Leeds, East (Mr. Healey) that one of the reasons for the success of the Brandt report and the high respect in which it is held is not simply the mixed nationality of the membership but its mixed political complexion. I am weary of hearing his belligerent speeches, which suggest that the only people in the world who have any concern for those issues are those in the Labour party. I find that exceedingly boring, irrelevant and rather sad.

**Mr. Clinton Davis:** The hon. Gentleman is being senseless, because my right hon. Friend paid a generous tribute to the right hon. Member for Sidcup (Mr. Heath) and other members of the commission who come from disparate political parties. The hon. Gentleman's point was less than generous to my right hon. Friend.

**Mr. Johnston:** I assure the hon. Gentleman that I do not desire to be ungenerous to the right hon. Member for Leeds, East. Nevertheless, he said that the only political party that is committed to the United Nations' target is the Labour party. That is not true. That is worth saying. I am tired of the right hon. Gentleman seeming to take the view that there are only two parties in the House and that what anyone else wishes is irrelevant. I do not like that. That is all that I am saying.

Brandt 2 states that world trade is stagnating. That is true. It states that there is a need to tackle the various forms of protection that discriminate against the Third world. I am a strong supporter of the European Community, but I must say that the CAP, to a degree, has such an effect. That is something that we should seek to correct. The need for a stabilisation of commodity prices is evident. Their fluctuation often has a ruinous effect on Third-world countries, apart from the effect on inflation in the West.

On food, there is mention of the need for countries to develop employment-creating agriculture, which is not necessarily dependent on the high-technology fertilisers, and to work towards food self-sufficiency. There are a number of examples to show that that can be done. In the Punjab, agricultural production has increased by nearly 75 per cent. in the last 15 years. The Philippines has eliminated its rice deficit in the past decade. Such developments are clearly possible and well worth encouraging.

The commission, on page 136, repeats its recommendation

"that a global energy research centre should be created under UN auspices to co-ordinate research on new energy resources." That request must be coupled with the statement on page 133:

"Over the past three years, there has developed widespread complacency about the future stability of energy supplies and prices. This complacency cannot be justified." I am far from being an expert on energy, but I am extremely puzzled by this change. Three, four or five years ago, every time one opened a quality newspaper one found a doom-laden article warning that we should run out of petrol by the turn of the century and that we must conserve energy, switch off our street lights and generally cut back. Suddenly all that has disappeared, at least from the rhetoric—one might call it the green rhetoric—of politics.

I have mentioned the specific recommendation made in the Second Brandt report. Perhaps the Minister who is to reply will tell us why it is that the United States is opposed to this, as is stated on page 138, and what is the British Government's attitude to what seems to be a sensible proposition. I shall listen to the Government's response with an open mind.

If there is to be a dialogue, there is obviously a need for political will from both North and South. It is extremely encouraging that the report has been compiled by people from both North and South, showing clearly that people in leading political positions in North and South can sit down together and reach agreed conclusions. I feel, however, that there is insufficient political will in Britain at the moment. A certain new nationalism is creeping in, not just on the Government side but in the Labour Party. The new nationality laws, the reduction in overseas aid and the lukewarm attitude to the EC are all matters of concern.

I should like to make a few critical remarks on both the Brandt report and the position of the Government and the Labour party. One could argue—as a Liberal one has to argue—that it is not enough to oil the wheels and get the world's economy going. One must be concerned about real redistribution. Brandt does not deal with the awkward fact, with which the previous President of the United States began to wrestle uncertainly—that many Third-world countries which seek help have divided social systems and there is no evident intention that those systems will become less divided. One day we shall have to address ourselves to that problem.

The quality of aid is another issue to which Brandt 2 does not devote enough attention. I shall not dwell on the obvious point that the United Kingdom does not give enough aid. The Minister might reasonably say that it is easy for a member of a minority Opposition party to say that. But if one looks at the details of the package, the fact that the United Kingdom gives a far greater proportion in tied aid than do any other members of the OECD is a criticism of our country. I understand that in 1980, 63 per cent. of aid from the United Kingdom was tied, compared with between 20 per cent. and 30 per cent. in the remaining OECD countries. That is a significant difference, and not a desirable one. Equally—I suppose that this follows inevitably from the statistics that I have just given—in terms of bilateral versus multilateral aid, only 14 per cent. of our aid was multilateral. That is a smaller proportion than for any other OECD country.

Of our bilateral aid, only 10 per cent. went on agriculture. Again, that was the lowest proportion of any OECD country. As agriculture is crucial to the regeneration of the Third world, that does not seem to make sense.

The previous Minister for Overseas Development said that the Conservative Government would give greater weight to industrial, commercial and political considerations. That has the inevitable consequence that there will be less aid for the poorer countries, and that is something that we must question. It is all very well to give large sums of money for steel mills in India or Mexico, but the consequence of the expenditure of those sums is that the poorer agricultural countries receive less.

The Labour party view was expressed somewhat belligerently today. That was perhaps to be expected as the spokesman was the right hon. Member for Leeds, East, and that is his way of doing things. I humbly suggest,

[Mr. Johnston]

however, that much of his belligerence is far from justified, because the Labour Government's aid record was only marginally better than that of the present Government. So marginal was the difference that it would be pointless to try to make a case out of it. It would be more sensible to try to develop a common position across the Chamber in relation to the Third world, especially as we all know that these matters are not always easy to put across to our constituents and to the public at large. The right hon. Gentleman's approach was wrong in that respect. If we are stuck with a political system that is based on confrontation, we would hope that advocacy of a lower aid programme on one side of the House would produce a higher aid programme on the other. That has not happened.

The Labour party's plan in "The New Hope for Britain" is good for reading at night as it has a slightly soporific effect.

**Mr. Clinton Davis:** What effect does the hon. Gentleman think his speech has?

**Mr. Johnston:** The section on the developing world in that document is vague and does not match what the right hon. Member for Leeds, East said. Worse still, the whole tenor of that document is protectionist and suggests that Britain should put up the barriers. The Liberals and their Social Democratic colleagues believe that protectionism must be strongly resisted and that it would be fuelled by the policies that are proposed in that document.

One of the results of the election of a Labour Government would be withdrawal from the EC. I understand that that policy is not supported by the right hon. Member for Leeds, East. It is strange when the spokesman on foreign affairs rejects a central and enormously far-reaching part of his party's policy, but that seems to be the case. The Foreign Secretary gave us well-compiled statistics about the aid that is given by the United States of America, the USSR and the EC. It is possible to criticise the EC, but, compared with the United States, the USSR and the United Kingdom, the EC has a goodish record. Apart from the general economic and political disruption that British withdrawal from the EC would cause, we should sacrifice the ability to influence that increasingly powerful group positively. That would be a profound mistake.

I should have liked to develop the issue of arms sales which is not dealt with in Brandt 2, but I shall simply register the Liberal view that that issue must be tackled.

I like to think that the Liberal party has a good record in pressing for constructive British policies towards the Third world. That has often been far from easy for a minority party. It is easy to criticise a minority party, but it is sometimes difficult for it to promote such issues.

I find it difficult to add anything that means much to the splendid speech of the right hon. Member for Sidcup who sits on the Benches opposite and stands for the Conservative interest. I hope that, despite the conflicts that he sometimes has with his colleagues, his influence and experience will weigh heavily with the Government.

On behalf of the Liberal party, I commend Brandt 2 and hope that the Government will act on it.

6.33 pm

**Mr. Reg Prentice (Daventry):** I agreed strongly with the hon. Member for Inverness (Mr. Johnston) when he said that this subject ought not to be a matter of party controversy. The introduction of such controversy by the official Opposition rather spoiled the effect.

Several hon. Members have discussed the issue for a long time. More than 20 years ago, when, for the only time in my parliamentary career so far, I won first place in the ballot for private members' motions to be discussed on Friday, I introduced a debate on the first decade of United Nations development. Ever since then, a minority of hon. Members have discussed the subject without much party difference.

The hon. Member for Inverness said that our problem was to convince sufficient numbers of our constituents of the case that we try to make. I suggest that we also have a problem with our colleagues in the House, not in the sense that they disagree with us but in the sense that they have not been prepared to give these matters proper priority. Therefore, there has not been sufficient political will under successive Governments to do enough to co-operate in dealing with the problems of the developing world. In the 1960s that was tragic in terms of the consequences, whereas in the 1980s it has become desperate, both for us and for people in the developing world because of the increasing interdependence which is the theme of this debate.

The pace of change is increasing all the time. As my right hon. Friend the Member for Sidcup (Mr. Heath) said in a remarkable speech, many of the pessimistic forecasts of the original Brandt report proved to underestimate the crisis that we now face. Therefore, the document "Common Crisis" has had to uprate the extent of the danger and risk to all of us if we fail entirely to take action.

Against that background, I shall make one general plea and three specific points. My general plea is that the British Government take a high profile at this year's conferences at Williamsburg, Belgrade and elsewhere. My right hon. Friend the Foreign Secretary made a good speech today in that sense. He warmly welcomed the proposals in "Common Crisis" in general terms. Obviously, he did not commit himself to each recommendation in detail. Indeed, most of us have some reservations here and there. We now ask of him and his colleagues that that warm welcome be followed up in the White Paper in much more detail and that there be specific pledges on matters to which the British Government will give priority. More important than that, we also ask that his warm welcome be followed up at the conferences that lie ahead, especially Williamsburg.

A disappointing feature of my right hon. Friend's speech was that he said that the delegates at Williamsburg would not concentrate on the Brandt recommendations but would discuss the state of the world economy in general. A large part of the state of the world economy is contained in the first Brandt report and the "Common Crisis" statement. A discussion that ignores those aspects is not a proper discussion of the state of the world economy. There is simply no way in which the rich man's club can solve its problems in isolation from those of the developing world. The developed countries, the middle-income countries and the poorest countries face overlapping and interdependent problems.

During my two periods in office as Minister for Overseas Development, I attended many international conferences. I always found the Whitehall briefing over-cautious. The drill was roughly as follows. The Minister who was "leading" the delegation would attend the conference. I have in mind here longer conferences, such as UNCTAD, rather than short ones, such as Williamsburg. The Minister would go to the conference hall for the first few days and take his turn with the leaders of 150 other delegations at the microphone and deliver a speech that was written before he left home. He would then return home, whereupon the matter would be continued by officials. His briefing would emphasise his country's achievements. Britain has many things that it can be proud of in relation to the developing world, though not enough. The Minister deals in worthy good intentions. His briefing would also contain perhaps hundreds of pages of defensive material with which to resist any proposals from other people which might prove embarrassing to Britain and against British interests.

I do not complain about that altogether. I certainly do not complain about the necessity for British Ministers at conferences to defend British interests, because that is one reason why they are there, but I ask that British interests in the context of this debate should be interpreted positively and not negatively. They should be interpreted in relation to the critical matters that we are discussing.

My reference to briefings was not intended to criticise civil servants. They react to the attitudes of successive Governments, who have failed to use the opportunities of this continuing dialogue to take proper initiatives in this area, as have the Governments of most other countries.

The official aid programme has been too small under all British Governments, and was cut disproportionately by this Government during their early period in office, which is why I found it necessary to abstain in a recent Supply day debate on the subject. Most importantly, overseas aid should be substantially increased.

Although I do not wish to make party points, I shall respond briefly to the remarks of the right hon. Member for Leeds, East about the Labour party's pledge to achieve the 0.7 per cent. target. He, other Labour candidates and I fought the 1974 general election on that pledge and reneged on it. I wish that when he was Chancellor of the Exchequer and I was Minister for Overseas Development he had shown as much enthusiasm about the pledge to increase the aid to 0.7 per cent. as he did this afternoon. Neither Government have done well enough, but I would rather be a member of a party that had not made such a promise than a member of a party that had made such a promise and not carried it out. Promise or no promise, we must make progress towards that target.

The Foreign Secretary reminded us that the total flow of resources, including private investment, is almost £5 billion—that is the figure for 1981, the last year for which complete figures are available. The hon. Member for Sheffield, Heeley (Mr. Hooley) asked for more details about where the money goes, and I hope that they will be forthcoming. That is a substantial sum that is worth contributing, whether it goes to the poorest countries or to the less poor, and it is twice as much as the official United Nations target. Within that sum is the other target of 0.7 per cent., and our performance against that, according to the most recent figures, is 0.44 per cent. That is better than the OECD average, the latest figure for which is 0.35 per

cent. I do not say that with a sense of national pride, but I believe that it is a severe criticism of other OECD countries.

I read, as other hon. Members may have, the academic diatribe of Professor Lord Bauer in *The Times* recently. His arguments were no more impressive than they were 10 years ago when we debated the matter on Thames Television. I clobbered him then, not because I was a better television performer, but because I had the better arguments. He is right that official aid programmes will not of themselves create development. What is needed is a mixture in which the most important element is local effort and investment, the second most important element may be private investment from overseas, and the third, and frequently indispensable, element is official aid. The three together, in a different mix according to the circumstances of each developing country, have proved to be effective again and again.

There has been much sensible development during the past 20 years. Many of the developing countries have been developing faster than did Britain during the industrial revolution in the 18th century, mainly by their own efforts, but also with help from the developed countries, although that help should be on a much bigger scale.

**Mr. Rhodes-James:** Is not the prime example that destroys Lord Bauer's arguments the Marshall plan? Is that not a classic example of the movement of resources and finance to a deprived area that enables it to restore itself?

**Mr. Prentice:** Yes, and I am grateful to my hon. Friend for that intervention. We should all remind our constituents from time to time that the biggest single post-war aid programme was the Marshall plan, from which Britain benefited enormously. That would help people to see the present problems in a different perspective. I do not suggest that the volume of aid is more than one aspect of the problem, but it is the clearest simple measurement of our good will and commitment to co-operating with the developing world. We have not been doing enough and we should do more.

I make no apology for repeating what several hon. Members have said about the International Development Agency, because I hope that the message from the House today to our friends in the United States Congress is a clear and unanimous appeal to vote for the United States' contribution to the sixth replenishment of the IDA.

IDA 7 is due to be launched next year, but may not be launched if IDA 6 is not properly under way. That matter deserves careful thought by both Congress and the House of Representatives. I was in Washington in 1976 when there was a similar argument, and I discussed it with congressmen and officials of the United States Treasury. I understand why they may have doubts and problems with their constituents, but politicians of all donor countries have similar problems. The Americans must face their responsibilities now.

I put three arguments to the United States Government as forcefully as possible. First, America's reputation as a civilised, generous and enlightened nation that has given a positive lead in world affairs is on the line. They should not underestimate the importance of this matter, both in the eyes of developing countries and of their friends in the West. Secondly, in this matter they are beating the Soviet Union hands-down, according to world opinion. The

[Mr. Prentice]

Soviet record, whether on the International Development Agency, where it does nothing, or on its aid programme generally, where it does little, is deplorable. Although the American record is not as good as one would wish, by comparison it is enormous. The United States has earned itself many friends for the democratic way of life by its past generosity. It would be a tragedy if America sank down to Soviet standards in this matter.

Thirdly, I am indebted to *The Economist* of last Friday for quoting the conclusions of a study conducted last year by the United States Treasury, which stated:

"On the external side, [the bank's] reports emphasise the need for open international trading systems, realistic exchange rates, and the use of world market prices to reflect real opportunity costs. On the internal side, there is an emphasis on appropriate resource allocation . . . realistic pricing policies, cost recovery, and the maintenance of sensible fiscal and monetary policies."

In terms of the worldwide argument between free enterprise and the managed economy, the World Bank's operations, and particularly the IDA operations, are on the side of free enterprise. One would have thought that the American way of life was invested in their ideas and principles, which should not be abandoned. I hope that that message will reach them from their friends in this and other countries.

There is then the vexed problem of whether we need another Bretton Woods conference. In some ways, that problem is less urgent than other aspects of the "Common Crisis" report because the problems that we face in the world today cannot wait for the establishment of new international machinery. Existing machinery must be used and there has also to be the political will to use that existing machinery more effectively. In some ways there is more political will, and we can be proud that our Chancellor of the Exchequer, as chairman of the interim committee of the IMF, presided over the meeting that led to an increase in the IMF resources and to the bringing forward by two years of the quotas due.

I am not suggesting that we should postpone decisions because of the problems of machinery. However, machinery is, in the longer term, of great importance. I was in New Zealand last October when the Prime Minister, Robert Muldoon, was developing his ideas on the need for a new Bretton Woods. He had launched his proposals a little earlier at the annual meeting of the IMF and the World Bank. In October, he was speaking at a conference in the Pacific of the Commonwealth Heads of Governments in the Pacific, and he developed the idea further. I was able to get copies of his speech in Wellington and to discuss his ideas with some of his advisors in the foreign affairs committee. He was making a powerful case, which others have made as well.

Since the original framework was established following the second world war, we have gone through enormous changes. There has been an explosive increase in world population. There has been a dramatic rise known as the revolution of rising expectation. There has been a great increase in world trade. The proportion of products produced by each nation that is sold across frontiers has gone up. The vulnerability of the non-oil-producing countries to oil price rises has been proved dramatically, as has the vulnerability of oil-producing countries to a fall in prices. We have seen the relative decline in the dollar

as a world currency. Those are a few examples, and there are many others in the two Brandt reports, of the way in which the world situation has changed and is changing.

Therefore, on balance I should support Robert Muldoon's proposals for some kind of international commission representing the Governments and proceeding, not in any great rush, but taking whatever time was needed, to look at the problems and to decide whether the framework of the IMF, the World Bank and so on is adequate for the problems that we shall face in the years ahead. This may have been dismissed a little too easily by Ministers in our own and many other Governments.

Whether or not the machinery is changed, the central issue that we are discussing is that of political will. The task of those of us in the Chamber now—we tend to be rather the same cast that meets from time to time to discuss these affairs—is to try to bring home to our colleagues in Parliament and to a wider public that we are not discussing a marginal issue or helping the poor in a flag-day fashion, but are considering a matter of deep and fundamental importance to our survival. We need the political will to help solve that.

6.54 pm

**Mr. Frank Hooley** (Sheffield, Heeley): I am beginning to see signs in certain quarters of an anti-Brandt lobby developing, not from people who are hostile to the Third world or to aid, but among people who are very much committed to helping the poorest people in the world. This is an interesting development of which we may have to take account as debates go on. I am not sure of the exact motive for it. It may be cynicism about what has happened over the past three years, weariness of the argument, the hideous prospect of a Reagan-Thatcher combination over the next four years, which is almost too ghastly to contemplate, or the instability, corruption and undoubted tyranny in some Third world countries—El Salvador, Guatemala, Chile and Argentina spring to mind. It may be the problem of population increases, which pose such a tremendous strain on the planet's resources and on economic policies. However, there is a growing feeling among some people—I repeat that it is among people who are passionately devoted to Third world interests and to the poorer people—that Brandt does not have the answer. It is more important to study carefully what Brandt is saying. I do not follow the new school of thought, but I am concerned that it seems to be developing.

The record since the first Brandt report is grim. We all know how it was received by the Government—virtually dismissed in favour of open markets for trade, financial flows and demands that aid should be a matter not of helping the poorest but of political, commercial and industrial considerations, as the right hon. Member for Banbury (Sir N. Marten) told us on 20 February 1980. The Government wanted a ruthless pursuit of monetarist policies in this country and abroad, but that had the consequences of mass unemployment, industrial stagnation, falling living standards, the collapse of commodity prices, high interest rates and economic ruin for the poorest countries whose exports can no longer buy them the things that they need to survive.

Although the Cancun Summit resulted from the first Brandt report, as the right hon. Member for Sidcup (Mr. Heath) rightly pointed out, it was a disastrously lost opportunity. However, the one thing that has undoubtedly changed the climate in the open market has been the debt

crisis and the threat to the world banking system. I am not surprised that the right hon. Member for Sidcup, in his fascinating speech, spent much time on the problems of Mexico, Poland, Brazil and Yugoslavia, and pointed out the dangers to the international banking mechanism. I do not take the apocalyptic view that the system is likely to collapse. In the face of such danger, the self interest—at the very minimum—of the Western world will see that it does not.

However, it is grimly ironic that the very countries, such as the United States and the United Kingdom, whose Governments for the past four years have been talking about market forces, the free flow of capital and all that claptrap, are now running desperately to the IMF and the World Bank—the international equivalent of public corporations—and saying "For goodness' sake, get us out of this mess." It is a mess that they have got themselves into by their own policies.

This may explain the significant change of Government tone. I am not saying that there has been a change in Government policy because even if we see a Government change in policy after the election, it will be a change for the worse. However, there has been a substantial change in the tone of the pronouncements of the Foreign Secretary as compared with the tone and substance of Government pronouncements when the first Brandt report appeared. The hon. Member for Cambridge (Mr. Rhodes James) suggested that Lord Carrington had made a serious miscalculation in the original response to the first Brandt report.

**Mr. Deakins:** Does my hon. Friend agree that, while we have had a change of Foreign Secretary—which in this respect has been a change for the better—there has been no change at the Treasury?

**Mr. Hooley:** In a way it makes the change of tone more striking, for when we talk of the IMF and the World Bank, it is probably the Treasury rather than the Foreign Office that is pulling the strings—or it may be that the Foreign Office is beginning to educate the Treasury. It is rather unlikely, but the possibility exists. Certainly there has been a change of tone from the Government, but it remains to be seen whether that will be reflected in change of policy and change of actions. I must join the school of cynicism on that subject, partly for the reason that my hon. Friend the Member for Waltham Forest (Mr. Deakins) mentioned—that we have had no change at the Treasury—and partly—and worse still—because there has been no change at the top. Undoubtedly, however, there has been a change of tone.

One of the important messages of Brandt is that we have a great mechanism of international co-operation—the IMF, the World Bank, UNCTAD, the IDA, and the range of technical agencies of the United Nations, such as the FAO and the UNDP. Brandt wants us to use them more vigorously, with determination, more political will, and with more vision and imagination.

I had the impression, from the speech of the right hon. Member for Sidcup, that he is becoming somewhat disenchanting with summits. So am I. I think it would be no bad thing if the focus of negotiations, discussion and decisions—the first Brandt report pinned its hope on a summit and was grievously disappointed—came back into the IMF, the World Bank, the UNDP and the other international agencies which have worked extremely well

in certain respects over the past 30 years or so. I have no great hope about Williamsburg but I believe that something could be achieved within the bodies that I have mentioned. Nevertheless, they need some reform.

I have a divided mind about whether we need a new Bretton Woods agreement. I think that the situation is too urgent to wait for that. If we wait for another Bretton Woods and then reshuffle all the institutions and do nothing else, that will be a waste of time. But there is undoubtedly a need for some reform of voting rights within the IMF and the World Bank, and for some reform in the staffing of those bodies in order to bring in more of the Third world people who have a better and more direct knowledge of the problems of the Third world. There needs to be in some respects a change of attitude, certainly in respect of the IMF and its conditionality arguments towards Third world countries.

With regard to aid, I entirely agree with Brandt about the need to move rapidly towards the 0.7 per cent. volume. There needs to be more bilateral programme lending. In Britain we need to study the question of meeting local costs and untying our aid. As was said earlier in the debate, we seem to have almost the highest percentage of tied aid of all the major donors. It will not do for the Government to pretend that they have a more respectable attitude in this respect than the previous Labour Government.

The Government's own figures give the story clearly. On page 17 of the White Paper on Public Expenditure, the figures are set out in constant 1981-82 prices. The Government inherited a programme in 1978-79 which was running—converted to 1981-82 prices—at £1,108 million. The figure slumped disastrously, in the financial year just ended, to £892 million. That is in real terms a fall of £216 million, or 19 per cent. The increase announced so proudly by the Foreign Secretary this afternoon does not offset that. In the first place, as he said, it is a cash increase of 10 per cent., and we have to chop that in half to allow for inflation.

As the Government have acknowledged, most of the increase is going to repair the damage in the Falklands. In my view—and in the view of many people—that is not aid in the accepted sense of the word. The standard of living of the Falklands people does not remotely compare with that of the people of Bangladesh, for example. Although there has to be reconstruction to make good the damage of the war, it should be carried on a totally separate and special Vote, possibly under the Foreign Office, and should certainly not be mixed in with the aid programme. Therefore, the rise in the current financial year is to a very large extent almost entirely spurious.

Even if we accept the figures as produced by the Government, without including the Falklands factor, the £936 million, at constant prices, shown in the Government's own White Paper, will amount to less than their performance in 1980-81, less than their own performance in 1981-82, just slightly more than the 1982-83 figure, and substantially less than any of the three years, 1977-78, 1978-79 and 1979-80. Therefore, it is spurious for the Government to claim that they are now on a rising trend.

The Foreign Secretary was almost completely silent about arms spending. That is a matter to which Brandt devotes a good deal of comment, and rightly so. It is not merely extraordinary but alarming that expenditure on

[Mr. Hooley]

armaments in 1982, at \$650 billion world-wide, is \$200 billion greater than even two years before, in 1980. As Brandt rightly says,

"military expenditure is very much more a part of the world economic problem than its solution".

Here again, the Government's record is startling.

The Government inherited from a previous Labour Government a defence programme worth £11.5 billion—hardly to be regarded as peanuts, even in those days—and at constant prices the figure has gone up to £14.2 billion—a 23 per cent. increase on arms in real terms. A tiny fraction of that increase, had it been diverted to the aid budget, would have enabled the Government at least to maintain the level of the aid budget. Indeed, had there been a slight shift between those two heads of Government expenditure, the Government could have increased their aid. I do not think anyone would seriously argue that a diversion of £300 million out of £15 billion would have disastrously affected our defences. It could certainly have given us a much better record on aid over the past three or four years.

It is alarming and startling that we are still at this moment supplying arms to Argentina indirectly through the weapons and weapons systems that are going from Europe to that country.

Brandt devotes much time to the efforts of the World Bank and the IDA. I agree entirely with those hon. Members who have stressed the importance of the IDA, the importance of the sixth replenishment, and the enormous importance of pressing on with the seventh replenishment, not withstanding the objections of the United States Congress. I agree that there are considerable difficulties because the United States is an important donor within the IDA, but it is of the utmost importance that on this issue we should maintain the good record of the United Kingdom and press on with the seventh replenishment. We should go ahead with it even if we cannot convince the members of the United States Congress of the enormous value of that form of aid.

The Brandt report suggests that the borrowing and lending power of the World Bank should be increased. It also gives a slightly cautionary word about the conditionality that is creeping into World Bank lending. The World Bank is now to some extent moving towards what is called structural lending. That is to say, it is not lending for specific projects but for the general economy of some of the countries that it is helping. One of the consequences of that which Brandt picks up is the tendency to lay down the conditions for which the IMF has become so notorious. I hope that the Brandt warning on that point will be noted and acted upon.

A major recommendation of Brandt 2 is the enlargement of IMF resources. Clearly, the key recommendation here is for a major new allocation of SDRs. It is worth quoting directly from page 57 of Brandt 2 on this point. It says:

"We are convinced that present circumstances demand the use of SDRs. The level must be very large and related to the extent of the declines in international liquidity and the level of deficits which must be financed if contractionary forces are to be reversed."

The report goes on to spell out the reasons why that is such an advantageous way of dealing with the problem. It says:

"Besides the quick provision of relief, an SDR allocation has other advantages at this time. SDRs have declined considerably

as a proportion of non-gold reserves. An allocation of about SDR 10-12 billion per year for the next three years is required merely to restore this ratio to about the level it held after the first period of allocation which ended in 1972. A further advantage is that SDR allocations do not create repayment obligations, a particularly important feature."

I hope that the Government will be prepared to pursue that recommendation within the IMF, although I accept that it is not a matter on which we can act alone as we have to carry the opinion of the Western world with us.

Brandt is scathing about the conditionality requirements that the IMF has laid down for poorer countries in the past and points out that objectives of help must not just be counter-inflation but should be genuine growth, higher employment and the equitable distribution of incomes, and should take account of the pace and the rate of economic change—and, indeed, political change—which some Third world countries can tolerate under the help that they get.

I part company with Brandt 2 on the assumption that the trend in the world at large—not only the United Kingdom—towards protectionism is likely to be resisted. I do not think that that will happen. The evidence in the United States, which is supposed to be the high priest of free trade although it does not often practise those principles in its restrictions on Japanese goods, its attitude towards British Steel and in its current warfare with the EC over agriculture surpluses, the attitude of Japan, and the growing attitude of the EC on agriculture products, make it highly unlikely that we shall return to the pure milk of GATT free trade as conceived about 30 years ago. Politically, that will not happen. However, I can see some possibility, if we can move back towards longer-term contracts for commodities—for example the famous Commonwealth sugar agreement which we had to abandon when we joined the EC—and towards some concept of trade planning under which the objective will be not to reduce imports but to obtain agreement on the level of imports as between Third world and developed countries—incidentally, giving preference to Third world countries—we may overcome the present beggar-my-neighbour feelings and attitudes that are undoubtedly growing stronger in the face of the present world recession.

I am not convinced that even if we get out of the recession—I am not optimistic about that—in the next 12 or 18 months the demand for protectionism will fade away. The structural problems, which to be fair to Brandt he refers to, will be so formidable over the next few years that the concept of free trade without any form of protectionism is politically not on. Unless we replace it with some alternative positive concept, which I call trade planning, the growth of protectionism will be irresistible. Brandt might be economically right about that, but he is politically wrong and it needs to be examined much more carefully.

The United Kingdom can make an immense contribution in the technological sense to the energy problems of Third world countries. We have enormous experience and great public corporations with immense technological and scientific experience in winning coal, gas, and the generation of electricity. Until the Government interfered, we were becoming growing experts in oil exploration and the development of offshore oil fields. I am sure that that position will return. Such technological skills could be shared effectively with the Third world, which might be much more willing to receive

help from British public corporations than from the multinational bodies which at the moment are probably their main alternatives.

Anyone who is involved with the hideous situation in Ethiopia will recognise the gigantic need for an effective international emergency food reserve. Brandt makes two interesting points. He says that we must do something to stop what is called ecological deterioration. I suppose that he is thinking of the spread of the deserts and the destruction of the forests. Those are fundamental problems which we cannot discuss in detail in this wider subject, but they are important. Brandt also suggests that it is important to create within Third world countries what is called an indigenous research capacity. In other words, important though our Tropical Products Institute and the Centre for Overseas Pest Research are, Third world countries want the capacity to do such fundamental research themselves to be able to tackle their problems on the spot.

There are clearly some recommendations in Brandt 2 which a United Kingdom Government can follow up by themselves without any external prodding or difficulty. We can give more and better quality aid. That is to say, it could be untied and we could meet more local costs. We can cut our arms spending and release resources for more aid. We can sign the United Nations convention on the law of the sea. If we were to do that it would be a token of our willingness to meet the feelings and aspirations of Third world countries. We could reduce the miserable business of high fees for overseas students without putting up the fees on the one hand and then introducing extra subsidies, and so forth, to reduce them on the other. We could stop the sort of petty mindedness of NHS charges on people who happen to be spending a year or two studying in Britain. We could, as I have said, make the enormous expertise of our public energy corporations more freely available.

Those are all things that we can do unilaterally. None of them is enormous. None will change the world situation but they would be moves in the right direction and they are all things that we can do. In other matters such as the expansion of the resources of the World Bank, the IDA and the IMF, clearly we must work with like-minded countries. I agree with the right hon. Member for Sidcup that it is important to build a coalition of like-minded countries on these issues, which can work together within the international institutions to bring about serious and important changes even though certain influential countries may lag behind and refuse to go along with us. That is a key role for the United Kingdom, with its links with the Commonwealth, Europe and North America. It is well placed to take such initiatives. I suspect that we shall need a new Government before that is likely to happen.

7.19 pm

**Mr. Bowen Wells** (Hertford and Stevenage): It is a great pleasure to speak immediately after the hon. Member for Sheffield, Heeley (Mr. Hooley), especially when I find myself in agreement with his concluding sentence, that Britain is in a good position to give a lead in these matters and must for its own benefit give that lead. That is a central issue not just for Britain, but for all trading nations, among which are some of the poorest in the world. This is a matter of major importance to the entire developing world.

I have great pleasure in saying how much I enjoyed the positive tone in which my right hon. Friend the Foreign

Secretary opened the debate. I am unable to say the same for the right hon. Member for Leeds, East (Mr. Heeley), who did a great disservice to the cause of the debate. It is essential, as the hon. Member for Inverness (Mr. Johnston) said, to make the issue a cross-party affair which I believe the hon. Member for Heeley tried to do. The issue is one to which this House should show the political will of all hon. Members so that a political climate of opinion can be established that will back up our leaders in the forthcoming conferences.

I am greatly encouraged by the way in which this issue is moving to the centre of the stage. It results from the effect that private bank indebtedness is beginning to have on the domestic economy of Britain, the United States, Japan, Germany, France and the rest of the European Community. Significantly, "Common Crisis" makes 35 recommendations under the heading "Finance". With those recommendations is coincidence of view on the report of the Treasury and Civil Service Select Committee in its recent report, dated 15 March, on international monetary arrangements and international lending by banks. The Select Committee states that the way out of the crisis is as follows:

"the commercial banks will have to lend enough new money to permit orderly adjustment"—

they will have to go on lending to poorer countries—

"the governments of the debtor countries will have to implement their commitments to follow austere policies".

There is no difference between that wording and the president of the World Bank, Mr. Tom Clausen, who said early last week that the debtor countries would need appropriate economic policies to assist the world out of this problem.

The third recommendation by the Treasury and Civil Service Select Committee is that

"the world economy will have to grow enough to ensure that the expected payments improvement materialises if debtor countries implement their commitments."

The report continues:

"In our judgment the major threat to successful resolution of the debt crisis therefore lies in the possibility that an adequate global recovery will fail to materialise."

It is clear that both the Treasury and Civil Service Select Committee and the Brandt report are in agreement as is much of the debate. A way must be found to stimulate non-inflationary growth in the world economy and trade to get us out of our domestic unemployment difficulties and the debt crisis facing the private banks.

I wish to turn to the disruptive and old hat article by the noble Professor Peter Bauer, to which my right hon. Friend the Member for Daventry (Mr. Prentice) referred, in which he says:

"Aid cannot significantly promote Third world development; aid does not relieve poverty in the Third world; aid does not promote world peace or make friends for the West; aid is neither appropriate nor necessary for relieving unemployment in the West; aid is neither appropriate nor necessary for solving the so-called international financial crisis."

I have already said sufficient to refute much of that statement. The International Development Agency, in its retrospective report on its activities for the past 20 years, stated that it is not true to say that aid has not helped countries, nor that it has not aided poor countries. The IDA point out in table 3.4 that some countries have graduated from IDA assistance, having increased their GNP per capita income so that they are now no longer eligible for IDA credits. Those countries are Chile, Colombia, Costa Rica, Nigeria, the Dominican Republic, Ivory Coast, the

[Mr. Bowen Welis]

Republic of Korea, Turkey, Botswana, Ecuador, the Syrian Arab Republic, Mauritius, Morocco, Swaziland, El Salvador, Paraguay, Tunisia, Jordan, the Philippines, Thailand, Bolivia, Honduras, Indonesia, Egypt, Nicaragua, and the People's Republic of the Congo. That is a list showing the countries that have been helped out of abject poverty into that approaching a minimal recovery, which is defined in the report as \$800 per capita per annum GNP, which is very low indeed. None the less, those countries have made that progress in part as a result of the investment put into the IDA by countries such as Britain.

Colombia and South Korea have become donors to the IDA. That gives the lie to the noble professor's argument and sets the framework in which the House should be considering what must be done now.

The prerequisites for an expansion of world trade and finding our way out of our domestic difficulties are the reform of the international monetary system, finding an orderly way out of private bank indebtedness, support the International Monetary Fund, the IDA, the International Bank for Reconstruction and Development, an increase in Britain's bilateral programme, especially since Britain is facing an UNCTAD conference, to which I was pleased to hear the hon. Member for Healey address himself on behalf of the Labour party, which, like all of us has great differences about the argument in favour of protectionism. A way must be found of maintaining an open trading system.

I wish to examine the matters that I have listed in more detail and to say where the major problems and arguments arise. In the reform of the international monetary system, I reiterate that neither private nor public investment will occur either in our domestic economy or in the world unless there is sound money. A way must be found out of the yo-yoing of exchange and interest rates which has occurred especially during the past three years. If investors cannot reasonably predict their returns on investments, they are less likely to take risks. If I am doubted, perhaps hon. Members will talk to the major multinational companies based in Britain about their international investment programmes. I was told by ICI recently that it could no longer take risks. Unless reform takes place, the investment necessary to generate wealth in poor countries, thereby permitting them to purchase goods from this country, to employ more of their people and to begin the trading cycle will not take place.

The answer to the problem of obtaining a more equitable exchange rate system and trying to prevent yo-yoing interest rates does not lie in the current special drawing rights programme. The SDRs have major defects. I am not sufficiently proficient to know what is a substitute. International currencies must be related to some identifiable product that will maintain some equilibrium.

The major defect of SDRs is that they are only as strong as the major currency in the basket to which they are valued. For that reason, I am doubtful about the recommendation in "Common Crisis" that we should issue SDRs to poor countries. I have grave misgivings about that, not because it may be inflationary, but because I am not certain whether this is the right medium to increase the credit-worthiness of the developing world. Some other

method must be found. That leads me to conclude that we must hunt hard to find the solution to these difficult problems.

As to bank indebtedness, much progress has been made in recent months as a result of IMF intervention in and assistance to the private banks to help them get over the difficulty of restructuring their loans. When looking with pride at our own private investment, we should remember that the private banks got into this business because they were recycling OPEC dollars. The problem was that they used traditional methods of lending, but this is sovereign lending for development, and development takes much longer than the three to seven year-period for which many of the loans were made to the developing world.

IMF lending was also restricted because it was too short-term. As a result, the IMF has now moved to a longer term period. I believe that a combination of the private banks and IMF assistance will provide the solution to the indebtedness which, as the hon. Member for Healey said, is often a liquidity crisis rather than a bankruptcy in the sense that the countries concerned will never be able to repay their loans.

I know that a private bank manager would not distinguish between the two facets of not being able to pay one's bills, but in international lending between sovereign countries that vital difference must be taken into account. This means that the loans must be long-term with lower interest rates attached.

We must go beyond the agreement that the Chancellor managed to negotiate as chairman of the interim committee—that of increasing the quotas to the IMF by 50 per cent. He must now go on with equal determination to make certain that the Brandt "Common Crisis" criterion of 100 per cent. is achieved. That will assist both private bank indebtedness and structural balance of payments loans which the IMF has been making to countries in difficulties. We should soften the terms of those loans to allow a longer period for recovery for the most severely indebted countries, such as Tanzania which so far has been unable to agree with the IMF because of the difficulties of conditionality.

On IDA, I add my plea that we contribute to the seventh replenishment without condition. We should shame the American Executive and Congress into following suit. I say that because this has not been fully effective in the United States. When the British Government agreed to contribute to the IDA ahead of all other countries, they released the rest of international contribution to the IDA under the sixth replenishment, with the exception of the United States which contributed in part. I agree that we must try to get Congress to understand that agreement to the completion of the sixth replenishment is vital if we are to see domestic recovery in the United States and elsewhere.

Few people realise that two fifths of American exports go to Third-world developing countries. It is calculated that that means thousands of jobs within the United States economy. I am sure that that will be emphasised to the United States Government and Congress by our representatives at all levels.

With regard to IBRD, the 1:1 ratio between borrowing and lending should be a ratio of at least 2:1. In banking terms, all commentators say that that will be extremely conservative. That would release the additional funds that the IBRD needs for further investment in poorer countries.

We must increase our bilateral aid even further to accommodate not only investment in the Falkland Islands but additional fees for overseas students. I hope that a greater contribution will be made to that end. We need far more than the £42 million that has now been allocated. It should be at least double in a very short time.

I am not concerned with targets of 0.7 per cent. GNP, because development is a more difficult question than meeting United Nations targets. We must increase the sum so that it is effective aid that provides development. If the figure happens to be 0.7 per cent., so be it, but I do not go along with the Pearson report view that it should be 0.7 per cent., 0.8 per cent., 1 per cent. or whatever. It must be effective development aid that will generate employment in the host country and our own domestic economy. That is the objective that we should adopt.

There are two aspects of bilateral aid on which we must concentrate. First, we must try to cease export subsidies under the trade-aid arrangements. That takes an estimated £54 million out of our present arrangements, and the figure is likely to increase.

Britain is not the only country that is subsidising exports. It is happening in the whole of western Europe as well as in Japan and the United States. All are indulging in competitive export subsidies to Third-world countries, many of which are not the poorest. They are the newly emergent countries. That is a distortion in world trade terms that will not benefit the domestic economies of either the host or the donor. We must work with greater determination towards eliminating them.

Secondly, we must work to eliminate agricultural subsidies. Commodity prices, which are vital to Third world development, are important when one considers a product such as sugar. Much of the Third world produces sugar for export—the West Indies in particular—and has done for many years. Included among those are Swaziland, the Sudan and even Nigeria. Those countries must export to the world market because they cannot get all their produce taken at a special rate into the United States or the European Community. As a result, they face prices on the world market that are incredibly low—£90 a tonne the last time I looked from a 1975 high of £600 a tonne. Today's price is about £250 a tonne less than the cost of production in the most economic sugar fields in the West Indies. That arises because the European Community puts sugar on to the world market at prices that are subsidised through the CAP. That must cease, and we must be determined to ensure that it does. Such a move will provide additional income to Third-world countries which will have worked for it. They will be in control of their receipts and will benefit in a way that their Governments and peoples so choose.

We should restructure our budget to ensure that our project aid through the Commonwealth Development Association is increased as a percentage of our bilateral aid. We do not want to prejudice our very good overseas aid programme for the areas that need social, education, health and infrastructure developments. We must increase our bilateral aid programme.

We must control more closely the EC's use of our increased contributions to the European development fund. I hope that the Select Committee on Overseas Development will take up the issue and provide a detailed report on which we can base our arguments to assist the Minister for Overseas Development in his arguments for

a realignment of the programme so that it assists the least developed countries and does not become an agent of the CAP programme.

We must create the political will. We must hunt for co-ordination in all these matters. No single solution will provide what we need. It is not just a question of increasing aid by slinging money. We must have the political will to reform the monetary system and to increase aid efforts and their co-ordination. In countries such as Tanzania different aid agencies undermine each other which is useless. It is important that the IBRD structural adjustment loans are constructed with bilateral programmes in mind so that they all slot into a co-ordinated programme of assistance to any one country. Clearly that does not happen in Tanzania. Tanzania is short of food. It has just imported a large amount of food into Dar-es-Salaam, but it is going to waste. Members of the Select Committee visited southern Tanzania and saw that food could not be transported because of a lack of spare parts for lorries as a result of having no foreign exchange. The French are building a spanking new airport in Dar-es-Salaam. What a foolish waste of scarce resources that is.

We need additional determination to co-ordinate efforts to ensure that money is used properly. We must maintain the open trading system so that countries can trade and improve and increase their own wealth. I beg the Government to increase still further their efforts to ensure that they lead with their arguments at the conferences.

If the difference between this Government's attitude in 1979 to the question of aid has improved by a turn-round of, say, 500 per cent., it must be improved and built on again until there is an increase this year of 1,000 per cent., supported by the Treasury and Civil Service Committee as well as by the Foreign Office, the Department of Trade, the Department of Employment and the Department of Education and Science. They must all make the programme the central issue so that we can cure our domestic unemployment and improve the prosperity of the poorest people in the world.

7.44 pm

**Mr. Christopher Brocklebank-Fowler** (Norfolk, North-West): It is a pleasure to follow the hon. Member for Hertford and Stevenage (Mr. Wells) and to be able to agree with his call for political leadership. All parties in the House agree that the world is suffering the worst slump for 50 years. The Government not only recognise that but proclaim it. They often proclaim that the world slump alone is responsible for the high and unacceptable levels of unemployment in Britain. I accept that the international economy plays a major part in deciding the climate of our domestic economy, but I find it astonishing that the Government go no further and do not recognise that to overcome the problem it is necessary not only to have domestic economic policies but to have international economic policies.

Brandt recognises the problems. He analyses them and makes proposals. There was nothing in the speech by the Secretary of State for Foreign and Commonwealth Affairs today to give me confidence that the Government are prepared to give the political leadership in international forums that is necessary if the problem is to be resolved.

I have sympathy with the Government's loyal supporters. I have particular sympathy with those who wish that the Government would take action to deal with the problem, but they know, as I know, that however

[Mr. Christopher Brocklebank-Fowler]

elegant the circumlocution of the Foreign Secretary, and while the Foreign Office may take a kindly view, the Treasury takes a less kindly view. Most of all, Government supporters know that "Mother" will have none of it.

It is an appalling waste of our status in the world that we look forward to an international conference at Williamsburg where the British Prime Minister will, for the first time in her career, be the doyen of the assembled Heads of State, but that there is no sign that she will use her seniority to move the world forward in the way that the right hon. Member for Sidcup (Mr. Heath) so wisely suggested we should in his impressive speech this afternoon.

I welcome the opportunity to pay a tribute to the right hon. Member for Sidcup. In 1964 he led the British delegation to UNCTAD, which probably made the most significant contribution to the expansion of world trade. I pay tribute to the right hon. Gentleman also for the tremendous effort that he put into his service on the Brandt commission, not only in discussing and helping to formulate the policy in the two reports, but in playing such a major part in encouraging people in Britain and throughout the world to recognise that the world economy is the central issue. Until statesmen from all the countries in the West and the leaders in the South get together to discuss in detail sensible ways forward, there is little hope for the world's economic recovery in the foreseeable future.

The essential message of Brandt 2 is not only that the problems are serious and require to be addressed by the world community, but, more importantly, that we are running out of time. I was saddened by the Foreign Secretary's speech today, because his tone suggested that we have all the time in the world. We do not. Many countries face disaster. The right hon. Gentleman said that he hoped that some of the poorest countries would get through the recession without too much pain, but of every 1,000 children born in Bangladesh, 294 will be dead within five years. That is nearly one third of the children born in one of the poorest countries. I do not think that it is elegant if one is Foreign Secretary of a great Western country to say "Of course we know about the difficulties, but we hope that they will not upset the world community too much." They are thoroughly unacceptable and we in the Western world have to play a much more positive role in leading the search for solutions to the economic problems that will envelop us all.

First and foremost, we in the SDP say that Britain should take a lead in calling for and working for a rejection of the restrictive economic policies which, together with the oil crisis, have driven the world into slump. They should be replaced by a co-operative and co-ordinated policy of joint expansion to chart a course out of world recession.

Co-ordinated action is required on three grounds. First, relatively small adjustments in the fiscal stance of the major countries involved could produce significant increases in gross national product and reductions in unemployment. In that way the world could gradually be led out of recession.

Secondly, substantial progress could be made towards achieving monetary stability trilaterally between the United States, the members of the European monetary

system, of which I believe Britain should be a member, and Japan. Each bloc should define a target zone for its currency within which the value would be free to vary. That would mean that we would not be returning to the old rigid system of Bretton Woods. We would not have completely free floating exchange rates, but exchange rates would be floating within bands that would be agreed by the major trading blocs throughout the world.

The third area of policy for immediate attention is that of finance to the developing world. I do not confine myself to SDRs, World Bank lending, the IDA or triple aid programmes. I include access for the Third world to our markets and encouragement to develop their technologies and capacity to be full trading partners in the world.

The first two aspects of this strategy would provide a context within which expansion could restart. That would be measured, balanced and sustainable expansion. The third measure—finance for the developing world—would ensure that the expansion would not run into a barrier of markets blocked by penury. We believe that the construction of a new international strategy on these lines should be the main business of the economic summit in May. I join the right hon. Member for Sidcup in expressing disappointment that, in his words, it is to be just another tea party. It is far too important an occasion for that and it should be an occasion when substantial progress is made on the subjects that I have mentioned.

In addition to playing our full part in the construction of policies to overcome the world slump, we must consider also as individual countries the types of trade and aid policies that we should pursue that will maximise the assistance that we give to less developed countries to achieve increases in their standard of living, given the limited resources at our disposal.

In these respects the main lines of my party's policy are to increase stability and confidence in commodity trade and in foreign exchange dealings, to increase the real level of aid to the Third world and to improve its quality. I agree with the hon. Member for Hertford and Stevenage that it is necessary to develop mentally desirable investment in the Third world and to take the lead in enabling the international institutions to become more responsive to the needs of the Third world.

There are many who fear the disadvantages that might flow from trade liberalisation, and I shall dispel some of those fears. As developing countries spend their foreign exchange earnings, they would provide greater export opportunities for competitive British industries. Secondly, when less expensive imports displace more costly domestic or other foreign goods, that helps to reduce inflation. Thirdly, it provides a wider consumer choice, from which consumers benefit. Fourthly, industry will be encouraged to specialise in producing goods with a higher added value when we can secure a comparative advantage. This will increase our ability to match competition at home and abroad.

It is recognised that increased imports from developing countries initially concentrated on a fairly narrow range of products and might require a rather faster process of adjustment within our economy. Therefore, there are benefits to be gained in the domestic economy from freer trade and we in the SDP are determined that Britain should resist the forces of protectionism, which can be so damaging to developing countries and to the prospects of employment at home.

We believe that, given the right domestic policies, there can be a clear net balance of advantage in adopting a policy of greater trade liberalisation for the developed world. If other industrialised countries follow our example, the resulting growth in the world economy will benefit us all.

I reaffirm my party's commitment to the 0.7 per cent. target for aid, to be achieved by annual increases over five years of government. I do not subscribe to the view of the hon. Member for Hertford and Stevenage that 0.7 per cent. is merely an irrelevant target. It is a target that the international community has agreed, and it has been a target for many years. It has been set at a lamentably low level. The SDP believes that Britain should be pushing further ahead towards a 1 per cent. target for official aid. However, over the first five years of a SDP-Liberal alliance Government we would content ourselves with achieving the target that Britain has already undertaken.

Mr. John Townend (Bridlington) rose—

Mr. Brocklebank-Fowler: No, I shall not give way. I have too much to say in my contribution to permit me to do so. The hon. Member for Bridlington (Mr. Townend) has not been in the Chamber for very much of the debate—[HON. MEMBERS: "No."]—and so I shall not give way to him. We plan to achieve the 0.7 per cent. GNP target by a substantial annual increase in real terms during the first five years of government.

Mr. Townend: On a point of order, Mr. Deputy Speaker. I have been in the Chamber for nearly all of the debate. I slipped out for half an hour for a cup of tea, but otherwise I have been here throughout.

Mr. Deputy Speaker (Mr. Paul Dean): The hon. Member for Bridlington (Mr. Townend) has his point on the record.

Mr. Brocklebank-Fowler: I have taken note of it Mr. Deputy Speaker. I missed the hon. Gentleman.

Mr. Townend: Will the hon. Gentleman give way now?

Mr. Brocklebank-Fowler: No. Our intention would be to increase the level of British aid going direct to recipients and to multilateral agencies and to improve the quality and cost-effectiveness of British bilateral aid. We would wish also to take the lead in pressing for improvements in the quality and cost-effectiveness of aid going via certain multilateral channels.

The volume of aid is the most easily monitored index of aid performance, but the quality of aid that is made available is also of great importance. However, it is often harder to monitor. It is the quality of aid that determines the extent to which it can be used for purposes that directly raise the living standard of poor people. In some important respects the quality of British aid has improved in recent years. More aid is now given as grants rather than as loans, and a rising proportion is being given in programme aid, especially in sector programme aid, rather than being tied to one project. This is a welcome change of emphasis in the aid programme and we would like to see the improvement in quality continued, especially in the four ways that I shall mention.

First, we should like to see the improvement in quality continued by expanding the proportion of the bilateral programme that is made available in the form of programme aid to specific projects. We believe that this

form of aid can be more equitable and more efficient than project aid, especially in countries that have a good capacity for implementation.

Secondly, the improvement can be continued by working more closely with recipients to identify projects which raise the living standards of poor people and by giving much greater emphasis in the bilateral programme to aid projects that make a direct contribution to achieving the same objective. We should, thirdly, pay more local costs where there are difficulties in mobilising local resources. There is much evidence that that is the single most constructive step that donors could take to increase both the efficiency with which projects are implemented and the likelihood of benefits reaching the poor.

Fourthly, we should like to see a greater proportion of aid being made available as current costs so that operational costs can be paid for a defined period while a project becomes well established and the revenues of the local government agency expand to accommodate new schemes, such as vocational schools, rural medical services and agricultural extension programmes. This would help ensure that capital aid projects function more efficiently.

Both bilateral grants and loans offer considerable opportunities for British manufacturers. Trade will in many cases follow aid. We do not believe that it is a proper function of the aid programme to subsidise uncompetitive British exports, but we believe that where aid finance is made available for goods and services that we produce reasonably competitively in the United Kingdom, British exporters should have the opportunity to provide them.

To give the maximum assistance, especially to the poorest countries, will in many cases require untied aid in preference to tied aid, and we are therefore, in general, in favour of moves towards the general untying of aid. But we wish to see that take place cautiously and we wish to match the speed of moving towards the untying of aid to coincide with the rate at which other countries are prepared to untie their aid programmes.

Mr. Rhodes James: The hon. Gentleman's four-point programme represents a massive movement away from the concept of a proportion of multilateral aid to total bilateral aid. Surely all experience leads us to the argument that bilateral aid is not as efficient as one would wish and that balance is important. His four-point programme, however, is directed exclusively towards bilateral aid.

Mr. Brocklebank-Fowler: I was about to come to the question of multilateral aid. I was talking then about the bilateral programme and ways in which that programme could be improved.

In addition, we would substantially increase the resources available to the voluntary agencies. In particular, there is considerable scope to increase the pound-for-pound scheme for certain charities and projects from a one-for-one basis to a five-to-one basis, because many charities—I have in mind particularly Christian Aid and Oxfam, which have tremendous experience on the ground in dealing with some of the poorest people in some of the poorest countries—could effectively and quickly disperse larger sums of money for the relief particularly of malnutrition and poverty in the developing countries.

**Mr. John Townend:** Has the hon. Gentleman's programme been costed? If so, how much would it cost in cash terms, and would he raise the money by increasing taxation, or by reducing other programmes?

**Mr. Brocklebank-Fowler:** If one accepts that 0.7 per cent. of GDP figure over the period of a Parliament, that will decide the amount of money that goes to developing countries. Obviously, if the GDP were static or falling the cost would be less than if it were rising rapidly. We believe that over a five-year period we could achieve 0.7 per cent. of GDP going to developing countries, and the contribution that that would make to help expand the world economy would help mitigate the effect of the expenditure itself.

In the multilateral programme we would use our influence to improve the standard of management where, as in some of the regional development banks, there is clear evidence that those institutions are not working as efficiently as they might. In the same way, we would press for substantial reforms in some parts of the United Nations system—particularly the Food and Agricultural Organisation—which have shown themselves less rigorous in their execution of development projects than the British taxpayer has a right to expect.

The same can be said of parts of the European Community programme—the EDF programme—and we should like to see that programme brought directly within the budget of the Community and control exercised by the European Parliament. The World Bank group represents one of the best outlets for British multilateral aid, and I shall deal with that aspect later in my speech.

In the Labour party policy document, the word "investment" is mentioned and, "International Dimension", it is said that the party will support policies "designed to stimulate investment." I hope that when he winds up the debate for the Opposition the hon. Member for Greenwich (Mr. Barnett) will say what proposals the Labour party has to increase investment in the developing world, because there is an absence of any information on that subject in the Labour party document.

We would like to see a British Government being much more positive in encouraging the developing countries to seek private capital for investment. One of the major problems, as I have said in the House before, is the capacity of developing countries to identify projects in their own countries and then go out into the world's financial markets and raise the private capital that they need to turn good projects into viable enterprises. We believe, therefore, that work needs to be done to assist developing countries to identify and appraise projects and carry out feasibility studies. I hope that the Minister, when replying, will say what the Government have in mind to help encourage investment in the poorest countries.

Like the hon. Member for Sheffield, Heeley (Mr. Hoolley) I have tried for some years to get accurate figures of British investment in developing countries and how it has increased since the end of exchange controls. I hope that the Minister will answer that more clearly than did his right hon. Friend and will go on to spell out what the Government have in mind to encourage still further private investment in developing countries.

Returning to the subject of the World Bank and the need for the World Bank and the IMF to be more sensitive to the needs of developing countries, the question of conditionality, to which many hon. Members have

referred in the debate, is serious. Unless the World Bank and the IMF can understand the limitations on developing countries in times of hardship under domestic political pressures, and unless those institutions can accept the limitations that make it difficult for developing countries to fall in with what is normal bank practice, we shall not begin to overcome the problems that face them.

It is important that the international institutions should begin to look more carefully at how they meet the real needs of the developing world, to enable it to play its part in the expansion of the international economy. It is not just important for the developing countries. In the final analysis, we in the United Kingdom and western Europe depend on it if we are to see standards of living improve and full employment return.

8.9 pm

**Mr. Anthony Nelson (Chichester):** It is a pleasure to follow the hon. Member for Norfolk, North-West (Mr. Brocklebank-Fowler) who has made a comprehensive, extensive and imaginative speech. I know the considerable interest that he takes in these matters. The last occasion on which we both contributed to a debate on this subject was just over a year ago. Many of the elements of his speech on that occasion were reiterated today, although embellished by the considerable policy work which has been undertaken.

My hon. Friend the Member for Bridlington (Mr. Townend) intervened, and one must ask how much the SDP programme will cost and how it will be financed if we are to approach, even over the period of a Parliament, the target of 0.7 per cent. of GNP which would seem, in money terms, to be an extra £750 million, which is almost the product of a 1p on the standard rate of income tax or a not insignificant increase in the amount of public borrowing in any one year.

There is a real choice for the electorate in deciding whether such policies of increased expenditure on this, as well as other programmes that I understand they are proposing, will have a deleterious impact on the rest of the economy and the level of inflation, and, in the long term, on our ability to maintain the absolute level of that aid budget.

It is yet another reminder of the unworldliness of the SDP, which constantly promises more but who, when challenged on how it will finance the programme, say that it will generate sufficient trade to be self-financing. Such arguments are both specious and bogus. I welcome this opportunity to play a part in exposing them. I share a number of the hon. Gentleman's views, particularly his proposals on monetary reform to promote exchange stability.

I welcome, as do other hon. Members, the opportunity that the debate provides to pay tribute to the authors of Brandt 1 and 2 in trying to tackle some of the most serious problems that we must all regard with great anxiety on a global basis. I pay tribute also to my right hon. Friend the Foreign Secretary, who had some complimentary and favourable things to say about a number of the conclusions contained in Brandt 2. The motive of the authors of "Common Crisis" was worthy. They were trying to revive the momentum aroused by the Brandt report three years ago. After Cancun there was a setback as international recession forced industrial countries to redress their own economic problems or, as "Common Crisis" put it, "to adopt self-centred measures".

It is a valid observation that some of the problems of the least developed countries have been exacerbated by the related combination of oil price increases, low commodity export earnings, unsustainable debt service charges and currency depreciation. Nevertheless, while many other hon. Members have had almost wholly complimentary things to say about Brandt 2, I hope that it will not be taken amiss if I sound a few cautionary notes about the tenor as well as some of the conclusions of this latest memorandum. I do so for three reasons. First, the report asserts that the world's prospects have deteriorated rapidly since 1980 when the first report was published, and that the gap between rich and poor, North and South has widened. I do not necessarily accept the validity of either of those premises. "Common Crisis" was drafted during the worst part of the recession from which many countries are now emerging. Many of its alarming observations have been overtaken by events. We do no service to an ordered and valuable debate on the problems of the developing world, or what contribution we can make to it, if we proceed on either inaccurate or alarming premises. Moreover, the figures contained in the report giving the growth rates of selected groups of countries show, if anything, that the gap is narrowing.

The low income countries which have a GNP per person of less than \$410 are growing at markedly higher rates than industrial countries. India's growth rate, for example, in 1980 was 6.5 per cent. and in 1981 5.6 per cent. That compares with rates for the industrial countries of 1.4 per cent. and 1.2 per cent. I concede readily that when looked at on a per capita basis there are marked variations. Any average statistics will have some shortcomings, but looked at in terms of overall growth, the growth rates for the economies of individual poor, developing countries year upon year are not inconsiderable during a period of substantial international recession. It is difficult to see how even over the past couple of years they could have been substantially higher. During the whole of the past decade the growth rate of the low income countries was higher than the industrial countries other than those of Eastern Europe.

The oil exporting countries have prospered, but their fortunes have now turned dramatically, as my right hon. Friend the Member for Sidcup (Mr. Heath) reminded us earlier. In 1981 the GNP of high income oil exporters fell by 11.3 per cent. That trend is likely to have accelerated since then with OPEC countries such as Saudi Arabia becoming net borrowers on the international capital markets.

What may be a more valid observation, but one that the report, in my judgment, fails to identify, is the gap between rich and poor that has widened within many of the developing countries. Liberal credit has enhanced the standard of living of some sections of those communities while international recession has reduced to penury many who earned their living, for example, by producing commodities.

My second, more semantic, criticism of the report is that many of its phrases are alarmist. The prophecies of "the disintegration of societies" and "anarchy in many parts of the world" are in my view unsubstantiated. The report says:

"The survival of mankind itself is at stake."

I am all for shaking countries out of complacency, but that sort of journalese does not serve the interests of the

world's poor and starving. I looked to "Common Crisis" for a more constructive and challenging tone, but found it, in many places, unnecessarily apocalyptic.

I find the report's comments on the relationship between arms spending and world poverty simplistic and, to some extent, misleading. The authors conclude that military expenditure is much more a part of the world's economic problems than its solution. Few can fail to be alarmed that the world's military expenditure rose between 1980 and 1982 from \$450 billion to \$650 billion. However, defence is rightly a priority for many countries including ours. It is worth asking, as some of us have in previous debates, how much aid we could afford if we dismantled our defences, were overrun and were relegated to the suppressed satellite status of countries such as Poland? We should perhaps ask ourselves also who is the world's biggest arms exporter and yet remains one of the most modest contributors to overseas aid. The answer to both those questions is the Soviet Union.

Having said that, I believe the "Common Crisis" identifies some urgent priorities on the financial and trading fronts if world recovery is to be instigated and if the potentially overwhelming difficulties of developing countries are to be averted.

The level of Third world debt must rank as one of the heaviest millstones around its neck. The total medium and long-term debt of the developing countries now stands at about \$530 billion, two thirds of which is from private sources. Statistics on short-term debt such as trade credits are not reliable, but short-term debt probably brings the total debt of developing countries to some \$700 billion. As Tom Clausen, the president of the World Bank, said in the Jodidi lecture recently:

"nervousness about the capacity of borrowing countries to service this debt now gnaws at the fabric of confidence on which, not only banking, but nearly all economic dealings depend."

Over the past 20 years, the net flow of capital to developing countries tripled in real terms. There is nothing intrinsically wrong in developing countries borrowing money. Indeed, in the 19th century, when the United States was a developing country, it borrowed more than any other developing country at the time. What is wrong is to lend or borrow more than a country can reasonably expect to be able to repay or to misapply such borrowing to financing consumption rather than capital investment.

The fourth report of the Select Committee on the Treasury and Civil Service absolved the developing countries of the latter charge, although it admits that in individual cases countries borrowed to maintain consumption and postpone adjustment. What appears more likely to have happened was, as Brandt put it,

"a failure to assess correctly what statisticians call the 'downside risk'."

The recycling of OPEC surpluses, which was heralded as a virtue of the international money markets in the 1970s, became a menace as international banks, awash with funds, competed with each other to lend to sovereign Governments.

It is important in this context to differentiate between the borrowing of the poorest countries and that of the new industrial countries such as Argentina, Mexico, Brazil and Venezuela. As the Select Committee states, it is mainly the latter new industrial countries and countries that fall into that category that have borrowed too heavily and encountered debt service difficulties.



[Mr. Anthony Nelson]

Very little commercial lending has been attracted to the low income developing countries, although commercial lending to developing countries as a whole increased by 11 times in real terms over the past 20 years. The problem for the poorest countries has not been to service any overborrowing but to service even the minimal borrowing that they had already accumulated. Falling income from commodity exports, rising costs of oil imports, high interest rates and significant fluctuations in exchange rates undermined their ability to finance their borrowings, let alone repay them.

For that reason, I do not see restructuring of the international banking system or even a substantial new special drawing rights allocation to the IMF as the most effective way of assisting the least-developed countries, although I recognise that such action could be beneficial for other reasons. In my judgment, there are two more important ways of alleviating the desperate situation in the poorest countries. The first is aid through bilateral and multilateral channels and the second is a revival in world trade, which was mentioned by some hon. Members. That is why the forthcoming UNCTAD conference in Belgrade is so important.

The United Kingdom is a significant donor of aid, despite what many Opposition Members have said. I pay tribute to the Government's determination to maintain official aid during a period of economic difficulty. During the debate on overseas aid last year, I said that many hon. Members such as myself lived uneasily with the real cut in the aid programme that was being proposed for that year, and that I would support the Government and the Minister for Overseas Development if they argued their corner for an increase in real terms this year. I thank him, and I am pleased with the turn-around and the new resources that are being made available in the aid programme. I pay tribute not only to the considerable amount of that aid budget that we devote to multilateral institutions but to the proportion that thereby goes to many of the poorest people in the world.

I also mention the International Development Association, the importance of supporting the seventh replenishment, about which negotiations will start shortly, and of encouraging the United States to play its part and pay up for the sixth replenishment. There is a case for looking objectively at the percentage contribution that we make to the IDA. We have an outstanding record of contributions towards the replenishment of the IDA. Year after year the United Kingdom has contributed more than 10 per cent. of the replenishments. When one compares that with countries such as France that have paid about 5 per cent. or all the Gulf countries including Saudi Arabia, the United Arab Emirates and Kuwait, which pay only 5-4 per cent., one sees that we have been leading the way in paying a considerable proportion of the replenishments in recent years.

In addition to that, proportionate contributions towards the IDA may be misleading. Although contributions may fall in percentage terms, they may increase in real terms if total funds to the IDA are increased by major donors elsewhere in the world. There may be a case for actually reducing our percentage contribution if we are able to increase in real and substantial terms the absolute size of the IDA fund. In the absence of that, I would agree with many hon. Members that we should try to maintain our

commitment as far as possible. I share the apprehension that has been expressed that the 7.5 per cent. contribution to the bridging finance, excluding the American contribution as an element of the sixth replenishment, indicated that we might be prepared to envisage lower percentage contributions in the future. I have reminded the House that we pay substantially more than many other industrialised countries, and much more than many countries which arguably could afford to contribute more to this multilateral form of assistance to the world's poorest.

The most important prerequisite for any revival of prospects for the poorest in the world is perhaps trade. I share the view expressed by many hon. Members in this debate that free trade and the eschewing of protectionism leaves open the best opportunities of reviving prospects for world growth and assisting those who are at present least able to help themselves.

For many years I have taken the view that, short of reintroducing a fixed Bretton Woods system, there is a strong case for agreements such as the European monetary system—I believe that the hon. Member for Norfolk, North-West supports such a system—which provide an element of stability of currencies within trading blocks and yet provide some latitude so that currencies can fluctuate reasonably. Such arrangements provide a means of ensuring that day-to-day volatility and the problems of highly fluctuating currencies are overcome, and thereby restore much of the confidence of traders.

I have always regretted the fact that we did not join the European monetary system at the beginning, and that we have not become a full member of it. I know that resistance to that policy runs high in the Government. However, I think that recently the problems of the European monetary system have endorsed the strength of that institution rather than undermined it. They showed that when the pressures on the parities between currencies became unsustainable because of market pressures, there was a process for readjustment within the parities. While they remained within set parameters, the ability of different central banks to iron out day-to-day fluctuations was maintained. Such agreements can pave the way internationally to greater monetary stability, improving the prospects and confidence of traders throughout the world and assisting in reviving the level of trade.

We should play a full part in as many international discussions on economic co-operation as possible. I share the concern that sometimes these involve mere invective rather than the pronouncement of practical policies, but that is not inconsistent with the Government's market approach. By co-operation we could assist the world out of recession without unduly departing from the essential principles to which I subscribe.

We have a real voice in world counsels, based, perhaps, on our political history and—even now—our economic strength. We could use that voice to better advantage in this and other areas. I therefore hope for more than many expect from the Williamsburg summit, although I share the concern that it may not meet the highest expectations. We must use our voice to better effect in world counsels if we are to meet some of the worthy objectives of the Brandt 2 report and to tackle the plight of the least advantaged and those least able to help themselves.

8.29 pm

**Mr. Peter Hardy (Rother Valley):** The hon. Member for Chichester (Mr. Nelson) may recall that I was slightly unfair to him when I followed him in the recent debate on the Boundary Commission. As several of my hon. Friends and one or two Conservative Members are still waiting to speak, I hope that the hon. Gentleman will forgive me if I do not comment on his contribution today, save to say that I do not share his rather more relaxed attitude to this issue.

The Brandt initiative was commendable and it attracted far more support than the Government had expected. Since the publication of Brandt 1, however, the situation has become seriously worse. Conservative Members are naturally concerned about the problems facing the banks, especially the private banking institutions, which have funded at least 40 per cent. of the developing countries' indebtedness. Equally, the Opposition do not wish the banks to collapse, as they are performing an essential function. Nevertheless, our concern is not so much about the comfort of the financiers as about the plight of the hundreds of millions of people facing starvation, for whom death is an imminent experience. It is right to stress that we are talking about people—obscenely large numbers of people—and not merely about the convenience of financial arrangements in the economic centres of the OECD countries.

In a splendid speech, my hon. Friend the Member for Sheffield, Heeley (Mr. Hooley) suggested that voting rights in the international financial institutions should be improved, and I agree. We cannot justify a paternalistic or patronising attitude towards abilities in the Third world, as we have not managed the world's affairs very satisfactorily ourselves. A change in the voting rights is entirely desirable.

Several references have been made to summits. I believe that we have had enough summits if they are to be merely platforms for Prime Ministers to mouth hypocritical comments that are never lived up to in action. We have heard splendid words from the Prime Minister and senior Conservative Ministers. I recall the statement in Melbourne. The Council of Europe was meeting in Strasbourg at the time and on the day of that statement we were proud to be British, but one can take little pride in what has happened since those hypocrisies were uttered. Conservative Members and Ministers cannot afford to be smug or complacent, as some of their speeches were today.

Reference has been made to the International Development Agency. As the World Development Movement has said, Britain is currently the fourth largest contributor to the IDA, but it has the second largest voting power. The Government may like the voting power, but if they wish to keep it, let them be the second largest payer. If they are intent on reducing Britain's share of the seventh replenishment, let them also suffer a reduction in the political standing that they might otherwise enjoy. I believe that we should increase our contribution, because the IDA is a useful mechanism which serves the hungriest areas of the world. It is regrettable that in absolute and real terms aid payments to the hungry areas of Africa and Asia were lower in 1981 than in 1980. Sadly, people have become almost spiritually calloused by television pictures of babies suffering from the most awful forms of malnutrition.

We must respond more vigorously to the World Bank's reports. World aid, especially for Africa, is likely to fall throughout the 1980s, but the need for it will almost certainly double. The World Bank has urged donors to double aid in real terms by 1985. I hope that when the Minister replies to the debate he will be able to tell us that the British response will be one of which we approve. I hope that there will be no fine words from the Prime Minister or the Foreign Secretary at any international forum if we cannot respond positively to that call.

A more buoyant world economy is in our interests—not merely our trading and industrial interests—but we face a greater challenge. Hon. Members will be aware that in the past decade, greater attention has been paid to security in the Palace of Westminster. Our concern with terrorism here is not restricted to Irish atrocities and barbarism from revolutionaries in Ireland. We must recognise that terror has walked the streets of London and that it has a different source and motivation. If we continue to condemn large numbers of babies to die, the anguish in the Third world will, sooner or later, turn to anger and international terror will grow. Terror might have led to the only growth industry in Britain from the point of view of employment creation, but international terror should be taken seriously, although not because politicians deserve more security. If politicians are prepared to tolerate a world in which so many babies die, perhaps we do not deserve the security that is provided for us. If we are anxious about the world economy, industrial health and a decent society, we must respond favourably.

The Foreign Secretary should consider the second point that the World Development Movement has made about development education. In December the Foreign Secretary said that he would welcome more informed public debate. He will recall making that speech to the Royal Commonwealth Society. In those circumstances, why are the British Government, alone among Western industrial countries, withdrawing from supporting development education? Even the Americans started such a project last year. I hope that the Foreign Secretary will reconsider that matter. The House would welcome an assurance about it.

I hope that we shall approach the Williamsburg summit or any succeeding summit, with cause for some satisfaction and confidence that we have improved our position and that, after cutting overseas aid for three or four years, there will not be more cuts in the next two years which is what I understand, is promised in the public expenditure forecasts. I hope that the cuts proposed for 1984-85 to 1986-87 will be withdrawn.

There will shortly be a North-South conference which has been organised by the Council of Europe. When I agreed to serve on the organising committee of that body I was not terribly enthusiastic, because I am a little cautious about summits, conferences and the like. Nevertheless, I am assured that it will be approached seriously and arranged economically. I do not believe that there will be any lavish frills as there tend to be on such occasions. At that conference, I hope both that the Council of Europe will increase pressure on member states to act more decently and that we shall see that the British Government have learnt that many British people do not want us to be mean and shortsighted.

The Foreign Secretary, several Conservative Members and one or two of my colleagues have been justifiably critical of the Soviet Union's appalling record. It is often

[Mr. Peter Hardy]

prepared to provide guns at a cut price, but does little when it comes to providing aid. We are entitled to criticise the Soviet Union for that, but if we do we should consider the need for us to have some integrity and to improve our own wretched performance. If we cannot improve our performance, we are not entitled to criticise others. I am worried that the Government have placed excessive reliance on ensuring that the national honour is served by leaving it to private interests and decent individuals to make a contribution.

In South Yorkshire, my hon. Friend the Member for Rotherham (Mr. Crowther) and I have stimulated, encouraged and applauded the efforts of our decent people who seek to make up, from their own often limited resources, the inadequacies of the central Administration. Those people show the compassion which the world needs and the evidence of a wisdom which this Administration should adopt. However, we cannot rely on individuals to fulfil that which the country as a whole should undertake. The sooner the Government recognise that those individuals have cause to be ashamed of our inadequacies, the better Britain will be served.

8.40 pm

**Mr. John Townend** (Bridlington): The hon. Member for Rother Valley (Mr. Hardy) in his sincere speech mentioned terrorism. I am sure that he would not wish to mislead the House by saying that the terrorists who have caused suffering in London, other than the IRA, were from under-developed countries. It is interesting to note that such terrorism has been financed by oil riches, and most terrorist groups are involved with the oil-rich countries of the middle east.

I do not expect my contribution to meet with general support, as I shall put forward views that are rarely voiced in the House, but I am sure that they have widespread support in the country and will be advanced vigorously by my noble Friend Lord Bauer in future in the other place. I am not enthusiastic about the second report of the Brandt commission, although everyone must agree with parts of it. In some ways it is misconceived, and it is prejudiced in that it has a distinct pale pink or, more accurately, Social Democratic bias. I am sorry that the hon. Member for Norfolk, North-West (Mr. Brocklebank-Fowler) is not present. The report is Keynesian in outlook, and is clearly opposed to monetarism and to giving priority to the conquest of inflation. Therefore, I suggest to the Secretary of State that the Government should receive it with reservations. On analysis, the report is weak and skates over the extent to which the South, or the Third world, is responsible for its own problems, many of which are undoubtedly self-inflicted. My hon. Friends have also skated over that point. It is dangerous in propagating the idea of a world divided between North and South, and the possibility of conflict between the two. It acts as a vocal pressure group to increase the amount of aid provided by the West, which many hon. Members would support.

The concept of dividing the world between a rich North and a poor South is misconceived, inaccurate, divisive and positively dangerous. For example, parts of the Communist world which, according to the map on the cover of "Common Crisis", are included in the rich North, are no richer and may be poorer than some Southern countries that are classed as newly industrialised, such as

Singapore, Thailand and South Korea. The oil-rich states in the Gulf are included in the South, but are infinitely richer than Portugal and Greece. Why should the South include Saudi Arabia yet exclude Australia and New Zealand? Could it be that the latter are democratic countries or are, dare I say it, of European extraction? It is nonsense to talk about the South as one talks about western Europe and America on the one hand or the Soviet bloc in Europe on the other. These countries have little in common. Therefore, it is pointless and unhelpful to try to lump them together.

Argentina, for example, has far more in common with Italy than with Zambia. South Korea has far more in common with Japan than Somalia. Many of the countries in the so-called South, even those with problems, are basically rich in minerals, raw materials and oil, and have a good potential for food production if they were only properly administered. What, then, are the real basic causes of the present problems in many parts of the world, especially poverty?

The Brandt commission lays great emphasis on the price of oil and the level of interest rates as the main causes of the problems of the South, and in recent years these have had a significant effect. The commission is also critical of some of the Western Governments, and there are particular remarks made against America and, by inference, Britain, whose first priority has been sound money and the reduction of inflation aimed at bringing interest rates down. On the other hand, the commission skates over the major causes of the problems of the South, particularly in Africa and South America, which have been self-inflicted.

If we compare the position of the people in these countries today with that of 30 years ago, we see that the conditions have, in many cases, got worse rather than better. What are the reasons? Let us take Africa. There, in particular, the end of colonial rule for many nations, far from being beneficial has been positively disastrous. Prosperous, peaceful, law-abiding societies have been ruined by civil war, anarchy and Marxist dominated Governments. Democracy and freedom under the law have disappeared from most parts of the continent. Trade, industry and agriculture have been devastated by theoretical, Hampstead-style Socialists trying to put their crack-brained ideas into operation into societies that, above all, needed stability if they were to progress.

We have no better example than Ghana. At the time of independence it was a prosperous country with a balance of payments surplus and hard currency reserves. Nkrumah took over and tried to put Socialist principles into operation. Within five years the reserves had been dissipated and the country was on the verge of bankruptcy. Nyerere has done the same in Tanzania and no one on either side of the House would deny that Uganda's problems are self-inflicted. Not only has much of private enterprise been taken over by the state, but foreign investors have been driven out by penal taxation, restrictions on the remittance of profits and in some cases downright expropriation.

In many countries the freedom of the market place has been over-restricted by price controls that have frequently had an adverse impact on food production. Expatriates have been driven out. The racist expulsion of the Asians from east Africa did untold damage to the economies of those countries. I expect that the recent expulsion of the Ghanaians from Nigeria will have a similar effect.

Angola and Mozambique have moved to anarchy since the end of Portuguese rule. Whatever one thought about Ian Smith, Rhodesia under his rule had a successful economy, despite the imposition of sanctions by most of the Western world. It was not only self-sufficient in food, but produced surpluses for export. Since independence, the economy has been rapidly going downhill and is becoming more and more dependent on aid. Having once had a surplus of food, it will shortly not produce sufficient food to feed its own people.

Even wealthy oil-rich countries such as Nigeria have so mismanaged their affairs that as soon as there is a relatively small drop in the price of oil they are in deep trouble. When we contrast the way in which countries such as Nigeria are failing to adapt with the way that Japan and Germany reacted to the initial oil price increases, we see the cause of the differences between north and south.

At the turn of the century, Argentina was one of the 12 wealthiest countries in the world. Today it is in deep financial trouble because of bad government and gross overspending on armaments.

Many countries which receive considerable amounts of aid spend large sums of money on armaments. That particularly applies to the largest recipient of British aid, India, which has recently been involved in negotiations for the purchase of several hundred million pounds worth of military aircraft from France.

**Mr. Austin Mitchell** (Grimsby): I remind the hon. Gentleman that the British Government will be spending enormous sums of money on Trident. Does the hon. Gentleman suggest that there is no responsibility in the West for monetary policies which have raised interest rates so massively to the developing world? The Select Committee on the Treasury and Civil Service, in its latest report, found that debt service, as a percentage of exports of goods and services in the newly industrialised countries and developing countries, was 59 per cent. in the case of Mexico, 67 per cent. in Brazil, and 88 per cent. in Argentina, much of it due to the rapid rise in interest rates.

**Mr. Townend:** In due course I shall deal with the economic aspects, but the rise in interest rates was, of course, due to the fact that the world had got into a state of increasing inflation, and that has been the main cause of our problems.

With regard to arms, like the hon. Member for Rother Valley, I have no wish to see people starving throughout the world, but when we are producing massive aid to help the poor of the world it seems extraordinary that some countries which receive such aid should be able to spend hundreds of millions of pounds on arms.

I agree with Brandt that arms expenditure worsens the situation in the South as a whole, but I do not agree with him that the argument can be used against Britain or the West in respect of arms expenditure. As my hon. Friend the Member for Chichester (Mr. Nelson) made clear, we would not be in a position to give the aid that we give at present if we left ourselves undefended and were overrun by the Communist powers.

In contrast to the countries that I have mentioned, there are others in the so-called South which have done well, despite the massive increases in the price of oil and the high interest rates. Singapore, Malaysia, Hong Kong, Taiwan, South Korea and even states in Africa such as the Ivory Coast, have done rather better than the rest. The one

factor that they all have in common is that they operate a free market, private enterprise economy. The factor that all the poorest countries seem to have in common is that they operate centralised state economies.

**Mr. Jim Lester** (Beeston): My hon. Friend surely would not deny that the countries that he has mentioned have also received massive aid.

**Mr. Townend:** It is all a matter of degree. I do not think that my hon. Friend would suggest that, for example, South Korea would not have developed from its poverty-stricken state after the war if it had had no aid. Most of the aid was in the form of loans. I am not opposed to all aid. I am in favour of soft loans. I am not proposing that the Government should reduce their aid expenditure, which is about £1.1 billion, to nothing. The Brandt commission would have been more credible had it emphasised the importance of self-inflicted problems and urged countries to put their houses in order.

Far from increasing pressure on countries to take necessary action, Brandt proposes to reduce conditionality on aid and loans, even though that is the one way that the IMF has had in the past to try to get countries to make the necessary changes. On page 66 of the report, it says that the IMF should pay

"due regard to the domestic, social and political objectives of member countries".

It is often those political objectives which have caused the problems in the first place. Therefore, I am opposed to easing the present conditionality rules.

The commission also proposes that one of the principal solutions to the problems is a large increase in aid to the South. Like my noble Friend Lord Bauer I am opposed to that. History has shown that aid does not significantly promote Third world development and is not necessary for such development. By that, I mean not loans but straight grants-in-aid. Many Third-world countries in Latin America and Asia have made gigantic strides in recent years with the minimum of aid. As I mentioned previously, Rhodesia was a prosperous country in the middle of Africa without aid, while those countries around it were suffering.

Aid has not significantly reduced poverty in the Third world. Many Governments in the Third world do not have poverty as their number one priority. For instance, how do the poor benefit from the expenditure of much aid? There is the prestigious \$20 billion capital that is being built in Nigeria and the operation of loss-making airlines to please the President of this country or the Prime Minister of that, so that he can have the privilege of flying around in his own plane. My hon. Friend the Member for Hertford and Stevenage (Mr. Wells) mentioned the recent capital investment of an international airport in Dar-es-Salaam.

The commission claims that increased aid will relieve unemployment in the West, but I suggest that that is a fallacious argument. Exports bought with aid are given away. If it were possible to relieve unemployment permanently by Government spending—Conservative Members strongly deny that that is possible in the domestic context—it could be done more effectively by spending at home on modernising our industry and improving infrastructure and social services. Does any hon. Member really believe that the millions of pounds of taxpayers' money that went into subsidising ships for Poland gave any long-term benefit either to the British shipbuilding industry or to the Polish economy?

[Mr. Townsend]

Brandt goes on to say that aid is necessary to prevent a North-South conflict. Such a conflict is not the major danger facing the world today because of the diversity of the South. The idea of a North-South arms conflict is nonsense. The major danger facing the world today is an East-West conflict. On page 34, the report suggests that the Russian invasion of Afghanistan might not have occurred had Afghanistan received more aid. That is bizarre in the extreme. I wonder what reasons the commission would give for Soviet tanks rolling into Prague and Budapest.

Many hon. Members pay lip service to the policies of open markets and free trade. I note on page 28 that the report criticises the multi-fibre arrangement which has the support of most hon. Members. It has the vociferous support of those Labour Members who represent the textile areas. How do Opposition Members square their support for Brandt with their continuous call for more protection of our home markets? A recent example was when Opposition Members were in uproar at the news that Malta had obtained the contract to refit a Cunard ship because Malta could deliver on time. Opposition Members were furious that the order had not gone to British shipyards. However, Malta is one of the South and Third world countries. How do Opposition Members square their beliefs of an open market, on the one hand, with giving any order such as this regardless of open competition to a British firm on the other?

The proposals seem to be aimed at increasing the effectiveness of the South in negotiations with the North. The aim in giving the South more clout is to enable it to squeeze more resources out of the North, which in practice means out of the West. The West is more susceptible to pressure from public opinion, the operation of pressure groups and the lobbies of do-gooders than is the Communist East, which is unlikely to take any notice whatsoever.

Changes in the world's financial institutions were urged, thereby giving more power to the Third world. Will my right hon. Friend the Foreign Secretary oppose the suggestions, because the West is providing the finance? Much is to be said for the old saying "He who pays the piper, calls the tune." The proposals are tantamount to turning the International Monetary Fund into a world central bank. As my hon. Friend the Member for Chichester said, the position is probably not as serious as it was six months ago and the Government should not be panicked into taking action in the short-term that they might live to regret in the future. The real solution will come from world recovery. That will be achieved only by global policies of sound money and a reduction in world inflation leading to lower interest rates which will be of great assistance to the South and trigger off a spontaneous recovery. That recovery will be helped, in the first instance, by the low commodity prices of which Brandt complains. Once world recovery commences, I am sure those prices will then rise to the benefit of the South.

Aid is a means of redistributing resources and a form of world socialism. British taxpayers and the taxpayers of capitalist countries are being asked to pick up the bill for the mismanagement and incompetence of many Governments of the Third world. The answer is not a massive increase in aid, but lower interest rates and the lower oil prices that are occurring. The correct policy to

get those countries on their feet is to encourage more private investment, open markets, allow private enterprise to work and to end centralised economies.

The Government must beware of being inconsistent. They cannot be monetarists at home and Keynesian abroad. Overseas aid is a significant element of Government spending amounting to £1.1 billion a year. If it is increased, as Opposition Members and some of my hon. Friends think it should be, to 0.7 per cent. of the gross national product, it will be a figure approaching £2 billion a year. The reduction of public spending is an election pledge which still has some way to go.

I see no reason why overseas aid should be exempted from the squeeze that the Government will need to impose on spending during the next Parliament. I seek not the abolition of overseas aid, only that there should be no further increase in real terms and possibly a little cutting back.

9.4 pm

**Mr. Eric Deakins (Waltham Forest):** The flight of fantasy of the hon. Member for Bridlington (Mr. Townsend) was so removed from reality that it would serve the House no useful purpose if I sought to follow the labyrinthine workings of a schizoid and perhaps Right-wing mind. His ideas are those of a minority, not only in the House, but in any party in the country. By and large, the British people have more common sense.

This debate is like "Hamlet" without the Prince of Denmark. We have before us the report "Common Crisis", which is the play, but we do not have the main character, which is the Government's detailed response. While there may be good reasons why we do not have that response, it would have been helpful had we been able to debate a detailed White Paper. When the White Paper appears, and in the light of today's debate, I hope that the Foreign Secretary will ensure that the House has an opportunity to debate it in Government time, preferably before the Williamsburg summit. I also hope that a Treasury Minister will be in attendance, even if he does not take part directly, as many of the recommendations in "Common Crisis" are addressed to the Treasuries of the OECD countries.

The Foreign Secretary made a sympathetic speech, because he can genuinely see the political consequences of failure to meet the common crisis that the debate is about. However, I wonder whether the Chancellor of the Exchequer, the Secretary of State for Trade and, above all, the Prime Minister are quite as sympathetic. I suspect that they are not, and it would be nice if the right hon. Gentleman used his influence to ensure that they took the same line as him.

This is a pragmatic report and I intend to deal with it in some detail. However, it would be appalling if, in an eight-hour debate on Brandt and similar issues, someone did not point out that although these are pragmatic issues, there is also a moral case for aiding the developing countries and trying to put the world to rights. This is not just a matter of mutual self-interest. There is a moral case, but I shall not develop that now as this has been a pragmatic debate and should perhaps remain so.

There are six features of the report on which I should like to comment. There are many others, but perhaps we shall be able to discuss those in detail when the Government produce their White Paper. The first feature is the plight of poor people and poor nations. That has been graphically spelt out. That has become worse during the

recession, but I believe that "Common Crisis" underplays the seriousness of the next decade or so, even if some of the suggested reforms were to be implemented.

The world population explosion—or "tidal wave" as it should be described—much of it in the Third world, will gradually raise the level at which we must act in order to keep things as they are. In the words of the Red Knight in "Through the Looking Glass", we shall have to run twice as fast to stay in the same place. The world population is now about 4.4 billion. It will be 6.5 billion by the end of the century and a minimum of 8 billion by about the year 2015. We should all be concerned about whether the world population settles down thereafter or rises in the next 50 years to 14 billion. That is the range of the estimates that international organisations have made.

I take it that "Common Crisis" is a supplement to the first Brandt report and not a replacement. The second memorandum says very little about the population crisis and what needs to be done about it. That has been ignored. Nevertheless, I hope that the words of wisdom in the first Brandt report will not be lost.

The report says that there are new problems for the world's economic and financial systems. It underplays the seriousness of that. I call in aid Mr. Robert McNamara speaking at the Brookings Institute seminar on development in July last year. He said that

"the deficits of the oil-importing developing nations are so high that they cannot be sustained indefinitely. Were they to be financed by external borrowing for more than a few years, the associated debt service would build up to such levels that it could not be supported by any foreseeable expansion of export earnings."

Mr. McNamara went on to say that

"by the end of 1980 total developing country debt had reached \$440 billion (compared to \$68 billion in 1970) of which two-thirds was held by private lenders as against one-third in 1970." He also said that

"last June the World Bank projected a substantially lower rate of growth in private market lending in 1980-90 (8 per cent. in nominal terms) compared to 1970-80 (31 per cent.)."

A serious crisis will occur for us all in the next few years. The Foreign Secretary welcomed the proposals in the report. It would be interesting to know the Treasury's view. Many hon. Members have said that making conditionality more flexible is right because it takes more account of the internal circumstances of countries and does not force them all on to a Procrustean bed on which they have to be chopped in line with the monetarist tenets of IMF officials.

The report underplays a danger. If the IMF is to be dragged in more and more to help with the debt problems of countries such as Mexico, Brazil and Argentina, it could pre-empt a greater and greater share of its resources and there will, therefore, be a smaller and smaller share left for other countries whose plight is worse.

The report says that the World Bank should be allowed to borrow more. Many experts agree, but does our Treasury agree? It is vital that our Treasury agrees, because we are one of the most powerful interests on the World Bank Board. The report recommends that instead of 10 per cent., up to 30 per cent. of World Bank loans should go on programme lending. I should like to know whether the Treasury is as sympathetic to such a major departure from World Bank procedures as the Foreign Secretary. The basic needs of developing countries in health, education, population policy, rural services and agriculture are so important that they must be catered for

if we are to prevent a crisis. They can produce a high economic return, as World Bank evaluations of projects in the last few years show conclusively.

Investment in human resources is extremely important, as the report says. The report also states that when nations have their debts rescheduled—that is happening in Brazil—the commercial banks should not be left to deal with it, but that agencies such as the IMF and the World Bank should be involved, as should national lending institutions. What is our Government's attitude to that major proposal?

Last, but not least, the report deals with the further extension of power sharing in the World Bank and the IMF. We have to make some concession to the strong feelings in the Third world that such organisations are still dominated by the old guard.

A major criticism in the report, which I mention only briefly because it is politically contentious and I have more important things to talk about, is directed to monetarist policies in rich countries, which the report considers to have led to intolerable unemployment and economic decay. That is an epitaph to monetarist policies that many of my right hon. and hon. Friends would echo. We are aware of the Government's attitude but I do not know whether it is shared by the Foreign Secretary. However, it is an issue that divides the parties. We need a major programme of expansion in Britain and in all OECD countries to try to get the world economy moving again.

The report deals also with growing protectionism in rich countries, especially in non-tariff barriers. My hon. Friend the Member for Rother Valley (Mr. Hardy) quoted from page 107 of "Common Crisis", in which it is observed that non-tariff barriers on Third world exports to industrialised countries are increasing.

There was the disastrous episode, in my view, of the multi-fibre arrangement. Back Benchers on both sides of the House were vying with one another to force the Minister to be more and more restrictionist in his attitude during the talks. Others are entitled to their views, and I accept that there was cross-party pressure on the Minister, but it was pressure with which I disagreed profoundly.

There was also the complete failure of the GATT talks last year to do anything about creeping protectionism. However, the report acknowledges—I am sure that the Foreign Secretary would do so as well, and I think he did in his speech—that we are dependent on Third world markets. If there is to be a recovery of our economy to help our own people, there must also be a recovery in the Third world. We cannot have a recovery here unless it is linked with a programme of international economic expansion. Among the many reforms and actions against protectionism is the removal of tariffs on processed commodities from poor countries. I know that we have to go along with the other member states of the Common Market, but surely the British Government could take a major initiative within the Community in trying to establish a new approach, either through a revision of the generalised scheme of preferences, or by some other mechanism, to ensure that we help the Third world.

There are many aspects of the Labour party's new policy, as set out in its campaign document, that are marvellous, especially those relating generally to the Third world. However, there are one or two aspects of it that I find highly restrictionist in trade terms and rather unfair

(Mr. Eric Deakins)

to the traditional compassion of many in the Labour party and in other political parties who feel strongly about poverty in Britain and overseas.

The report draws attention to reductions in aid. My hon. Friend the Member for Sheffield, Healey (Mr. Hoolley) quoted figures that appear in the Government's public expenditure White Paper. I know that the Foreign Secretary tried to make the best of a bad case. He told us that aid had increased slightly, but it decreased considerably before it started to rise. It will have to increase further, and quite considerably, before it returns to the level that the Government inherited from the Labour Government.

The cuts in the International Development Association's replenishments are worrying for us all. I find it surprising that so many of those who have contributed to the debate from both sides of the House mentioned the cuts. I hope that the Foreign Secretary, when thinking back on the debate and chewing over its conclusions and the opinions of hon. Members, will resolve to make strong representations to the Treasury. It is one of the areas in which the House has virtually a unanimous opinion. It is of the view that the Government should not renege on our record and should try to lead the way even if the United States makes further cuts.

The United States is one of the world's largest aid givers. However, Robert McNamara said:

"US development assistance, as a percent of GNP, has dropped 90 per cent. since the days of the Marshall Plan—during the same period our per capita income has doubled in real terms. The US performance can only be described as disgraceful."

That is an opinion that we should take seriously, as it comes from someone who was president of General Motors, Defence Secretary of the United States and a former president of the World Bank.

The action recommended by "Common Crisis" is shared by most parties: that is, achievement where appropriate and possible of the 0.7 per cent. United Nations aid target. Targets are important, even if one does not reach them, because they concentrate the minds of all interested people on what is being done. They at least provide a measuring stick, and that 0.7 per cent. shows how far we have still to go to see a decent amount of aid going from this country—a rich country—to the developing world. There is also an emphasis on the need for more programme lending in national aid budgets, and I hope that the Minister, when he replies to the debate, will give a hint on whether he and his officials look favourably on that aspect of the "Common Crisis" recommendations.

Last, but by no means least, it is suggested that aid should be much more poverty-oriented. I agree with that, but it is one of the few criticisms in Brandt which do not apply to the aid programmes of this or the previous Government. We have a good record—since the White Paper of my right hon. Friend the Member for Lanark (Dame Judith Hart) in 1975, "More Aid for the Poorest"—for giving more of our aid to the poorest countries. We have managed to continue with that and I hope the Government will continue on those lines. There are, of course, many other countries where that recommendation would be more apt to be considered.

Why do we need to give more aid to developing countries, apart from the moral reasons and the need to deal with hunger and so on? There are the security aspects,

and I should have thought that they at least might be the one set of arguments to appeal to the hon. Member for Bridlington and those of his hon. Friends who share his views. There is the stitch-in-time argument, which is mentioned in "Common Crisis" and which was emphasised strongly in the first Brandt report. That is the argument that we are buying long-term security for ourselves, our children and our grandchildren if we ensure a more prosperous and equitable world between rich and poor countries and if we get rid of, or alleviate, the absolute poverty of 800 million of the world's population.

That is an investment in security. I do not justify it on that ground, but for those for whom it is a justification, it should be a substantial one. Do the Government take the same view about the purposes of the aid budget—that is, that it has other than purely commercial ends and humanitarian purposes?

In that connection, the brief reference in "Common Crisis" to the figures for arms sales is shocking. That world arms expenditure has risen by 44 per cent. in cash terms in two years is remarkable. To say that it is deplorable leaves one lost for words, because "deplorable" is hardly strong enough.

**Mr. Clinton Davis:** Obscene?

**Mr. Deakins:** I thank my hon. Friend. It is obscene. It is a waste of resources and one does not have to be idealistic and say there should be no arms spending and no arms trade to appreciate the need to reverse present trends. If we do not attempt to reverse them, those trends will continue and arms expenditure—I am talking basically about conventional arms expenditure, as I am sure "Common Crisis" was—will go on increasing, particularly in the Third world.

The rich nations of both East and West are setting a bad example to the Third world by expanding their arms spending. What encouragement does it give to any forces in the Third world who feel that increased arms spending is not merely morally wrong but is politically and economically unsound? As the first Brandt report said, more arms make mankind not safer but poorer, and that phrase of wisdom we should all take to heart.

We can do something as an individual country without calling international conferences on arms sales. We should be capable of getting together with some of the Western world's other major arms suppliers to try to restrict arms to areas of tension, repressive dictatorships and so on. It should be possible to draw up some guidelines by international consensus so that we can start on the long and thorny road of reducing the arms trade and thereby reduce the number of conventional arms that are bobbing around in the Third world.

We shall not hit the arms trade hard unless we are prepared to see a great expansion of collective security. In the '50s, '60s and '70s collective security in the Third world outside the NATO area was seen as a matter of NATO-like alliances. We had SEATO, and CENTO in the Middle East and so on. All of the alliances more or less collapsed because they did not meet the realities of the position in those areas. In my opinion, there is no substitute for strengthening collective security by the peace keeping mechanisms of the United Nations. It is something to which I hope the Labour party, if no other, will turn its attention strongly when there is a Labour Government.

My last point about the recommendations in "Common Crisis" is on the subject of the North-South dialogue, which has reached an impasse. The action recommended is that there should perhaps be another North-South conference on the lines of Cancun. If there is such a conference, I feel strongly that the Prime Minister and President Reagan should not go to it, because it was the action taken by the two major Western powers—Great Britain and the United States—that did as much as anything to ensure that by a lack of adequate preparation and an agenda and so on, Cancun was a failure. If there is to be another North-South summit, there needs to be more preparation.

The Foreign Secretary and the "Common Crisis" group were generous in their praise of the Commonwealth expert group. The expert group reported on getting the North-South dialogue going again. I believe that we should pay much more attention to the Commonwealth. I was heartened, as I am sure my hon. Friends were, by the Foreign Secretary's statement that the Government were committed to giving much more attention to this aspect of the North-South relationship. The Commonwealth is a unique forum outside the United Nations. It is the only regular meeting place of representatives of rich and poor countries at Head of State and Foreign Secretary level. We should make much more use of it. I am encouraged by what the Foreign Secretary said and by what the Labour party is proposing, which is to ensure that the Commonwealth can make a greater contribution to the solution of these problems than has been the case in the past.

The report mentions briefly development education, which is a small hobby horse of mine. The report makes it clear that development education in a rich country such as Great Britain is vital. We are one of many OECD countries that have public funding of development education. If the Government's policy of phasing out public funding for development education next April goes ahead—I hope that the Foreign Secretary will think about this again—we shall then have the dreadful distinction of being the only OECD country that does not directly fund development education for its citizens, and that would be deplorable.

The "Common Crisis" debate is not too soon and should not be seen as the only one on these issues. The issue will not go away. As the report says, time is running out for considered action. A failure at Williamsburg and Belgrade, and the signs are not auspicious, would be disastrous. We should then be forced into a series of ad hoc and hasty responses to the growing number of financial, political and economic crises that will face more and more Third world countries. One measure of statesmanship is the ability to anticipate problems and take appropriate action in advance. The Foreign Secretary may appreciate that, but I suspect that his colleagues do not. We need a Government who appreciate it.

9.30 pm

**Mr. Hugh Dykes** (Harrow, East): I was unfortunately prevented being present at the earlier part of the debate. I apologise sincerely to the House for not being here. In fairness to other colleagues and Opposition Members who wish to speak, I intend to be extremely brief. It would be singularly unjust to make a long speech. My absence was

occasioned by unavoidable meetings elsewhere. I am sorry about that, because I wanted to be present for the beginning of the debate.

The hon. Member for Waltham Forest (Mr. Deakins), who is a great expert on this subject, in general and in particular terms used the word "pragmatic" about the debate. I look forward to reading *Hansard* in detail tomorrow to see whether that is a just description for the debate which is overdue and which, from what I gather from various comments, has been a great success in outlining the nature of the crisis.

I defer to others who will have said a great deal already. It would be wrong of me to be unwittingly repetitious by trying to go into basic and background points about the Brandt commission exercise. Therefore, I shall restrict myself to a couple of fairly short comments bringing together some different strands, with a reference to the European Community and what it might do as a collective body.

Although I was not here for the earlier part of the debate, I heard the comments of my hon. Friend the Member for Bridlington (Mr. Townend). I hope that when he reads *Hansard* tomorrow he will not find that I am being unjust to him in saying that I was slightly depressed, to say the least, by some of his comments. I do not think that his views would have been generally shared by Opposition Members or my right hon. and hon. Friends. My hon. Friend has an esoteric and old-fashioned view about the reality of all the world aid and trade problems, and in a touchingly hopeful way was waiting for the mysterious, universal, invisible hand to start moving and getting a magical world economic recovery going again. None of us can be certain even about the past in economics, and certainly not about the future. I suggest to my hon. Friend that it will not happen like that. That is the fundamental nature of this world crisis.

I think that hon. Members from all parts of the House have already come to the conclusion in the debate that the crisis is still getting worse. One of the unwise and dangerously beguiling conclusions that we could reach now—from hints from the financial centres in the United States and to some extent from commentary here—is that a Western advanced country economic recovery is just beginning, which will be the general picture, throughout the West—both North and South—and other parts of the world. I have my doubts whether that would be applicable to advanced countries, let alone elsewhere.

There are ominous signs of mass starvation. We have seen them in many territories, not only in Africa. I repeat that urgent action needs to be taken, starting with a concerted, determined and ruthless drive to secure world economic recovery and more aid for the underdeveloped countries. This could begin at Williamsburg and be carried on at the next UNCTAD conference. If those opportunities are not seized, as hon. Members will have undoubtedly said, including the hon. Member for Waltham Forest, we are in for a most woeful situation in the whole world and there will be real despair in some of the undeveloped and less developed countries.

Some hon. Members will have already referred to the IDA being under severe pressure. That is one area in which a turn-around of attitudes by the advanced countries that have to be the leaders in this exercise will come. I share the gloom about the inadequate United States leadership. The chemistry of thinking in the United States seems to be

[Mr. Hugh Dykes]

behind the times for what is needed. As we know full well, in the past the efforts of the Soviet Union and the Eastern bloc have been disgracefully inadequate. They have made no attempt to contribute significant aid to underdeveloped countries in any measurable terms other than the tightly-connected political-military aid that they give to try to create foreign satraps beyond the Eastern bloc—often without success, I am glad to say.

The lead must come from the United States. If the United States does not give a lead, perhaps it must be prompted by the European Community. One does not have to be a Euro-fanatic—an epithet that is occasionally hurled across the Chamber—to believe that the EC can make a significant concerted contribution. That means a number of different things. I believe that it means an expansion of the total EC budget as soon as we can get it. That may mean, mechanistically, that in due course 1 per cent. VAT ceilings have to be penetrated. I would accept that, because I regard the significant expansion of the EC budget as a step on the path of increasing development aid from the EC as well. In percentage and absolute terms, a very small amount of money comes from the EC budget for direct aid. The EC has not only a moral obligation but also an important practical political obligation to take collective action—over and above the provision of bilateral aid by each member State—by more than doubling in the immediate future the size of the latest development fund.

There are practical aspects to the matter which are remote from the so-called romance—romance is hardly the right word, but that is how some people view it—of giving more aid to the underdeveloped countries. If the EC expands its aid, it will have to provide much greater practical checks on the way in which its aid funds are used in the underdeveloped countries. It is a sad reality that the Community's checks and controls, and the way in which its officials go to the countries involved to monitor the use of the money, are less adequate and less experienced than those of the other international agencies. I therefore hope that the Community will take more advice. At the moment, especially in Africa, it is difficult to stop much of the money being channelled corruptly into the wrong hands and ending up in secret accounts in Switzerland and elsewhere. Any reading of the reports of the court of auditors of the Community will show that that is all too sadly true.

It is also time for the Community to reach a whole series of new commodity agreements with underdeveloped and less developed countries, together with other international bodies and the member countries of the OECD.

I should also like the European Investment Bank to expand both its terms and articles and the amount of money that it can put into projects in the underdeveloped countries. That is a very controversial matter and it could not possibly be done under the existing articles and the constitution of the EIB. It would be a long-term project. Over the next few years I would like to see some change in the nature of the EIB. I would accept that change with enthusiasm as a way of making an additional EC contribution to helping underdeveloped countries.

I also hope that the EC will now develop the European Export Bank—that as yet unfounded institution that was a stunning idea about five or six years ago but then mysteriously disappeared from the scene. It would be a

specific instrument and institution, separate from the EIB and the development fund, set up specifically with the aim of providing both the finance and the insurance cover for turnkey projects of a major size. Projects would have to be of a minimum threshold size to qualify. The figures in the plan of six years ago are now, of course, out of date. There were to be turnkey contracts between two or more member states, through private contractors, semi-public or fully public agencies, but mainly through private companies. I am thinking primarily of the Middle East, but it could easily be done outside that area of the world by the European Export Bank. The original idea was to have \$50 million of permanent capital. That would now be pitifully inadequate, but I hope that the Commission will return to the proposal over the next few years. It would, of course, take some time to re-establish it as the previous dossier has become so out of date.

I hope that those points will contribute to the debate. The Brandt report itself often refers only tangentially to the EC, being far more concerned with the total world effort. The world is crying out for dramatic and positive leadership from the United States, with a major updating on a far greater scale of the old Marshall plan and all that it meant not only for the recovery of a devastated Europe but for the less developed countries due to the repercussive effects of all the payments and economic output occasioned by it. When that leadership is provided by the United States through the international bodies, the IMF and the World Bank, we shall be set fair to bring renewed hope to the underdeveloped countries where despair is the order of the day. Until that time, however, the EC must provide a lead both psychologically and internationally.

9.41 pm

**Mr. Tom Clarke** (Coastbridge and Airdrie): The hon. Member for Harrow, East (Mr. Dykes) restored much-needed balance to the debate and to the Conservative contribution after the speech of the hon. Member for Bridlington (Mr. Townsend). The debate has been mainly constructive and helpful—the kind of debate that a common crisis invites and which the people of this country would expect of us. The right hon. Member for Sidcup (Mr. Heath) made a notable contribution. I regret that the spirit of his speech today and his contribution to the report seems not to be widely shared by Conservative Members. The House and the country are the poorer for that.

I do not wish to become involved in party political arguments, but I deprecate the references to my right hon. Friend the Member for Leeds, East (Mr. Healey), especially by the hon. Member for Inverness (Mr. Johnston), the right hon. Member for Daventry (Mr. Prentice) and, to my great surprise, by the hon. Member for Hertford and Stevenage (Mr. Wells). The hon. Member for Inverness has supported Labour Governments on many occasions and the right hon. Member for Daventry was a Labour Minister, so neither is in a position to indulge in the moral indignation that they expressed today as they have a greater responsibility for the records of Labour Governments in the past than many serving Labour Members.

Many people will be disappointed at the Foreign Secretary's response. The right hon. Member for Daventry summarised a widespread feeling when he said, after the Foreign Secretary had left, that it was unacceptable to talk about the forthcoming conferences at Williamsburg and, presumably, Belgrade and to divorce the Brandt report

from any discussions that might take place. That was the impression given by the Foreign Secretary's speech and it seemed as absurd as Ernest Bevin arguing that one could create the welfare state but forget about Beveridge, because there is a relevance there that we ignore at our peril.

The problems that have been discussed, the problems of overseas development and of massive poverty concern people. Just as the report is relevant to the problems of British people, the type of suffering which is being endured in many parts of the world and is relevant to the Brandt report is worthy of our consideration. Successive Governments, whether Conservative or Labour, do not have an outstandingly good record on overseas aid. However, that is not an excuse for doing nothing or pretending that one has only to score party political points to influence people who have considered the subject seriously.

The Brandt report calls our attention not only to the vital issue of overseas aid but to other important matters such as development and the Third world banking system. Only on Thursday the House heard from the Prime Minister how, if Britain refused to contribute to the Government of Argentina, in the knowledge that such loans will be used to buy arms, the world banking system would be in danger of collapse. If that is so, the world banking system is extremely fragile, and dangerous in terms of world peace. It therefore deserves our consideration.

The Brandt report is also about the problems of disarmament. They are as relevant to the Third world as elsewhere, especially when, in the face of such poverty as has been mentioned today, countries such as India and Pakistan are, remarkably, involving themselves in the production of nuclear weapons which can do no good to their countries, the Third world or the universe. The report is also about making the best possible use of energy resources, whether that be oil, gas, coal, solar power or wind power. The report is also about making a far better job of distributing our food in a world which produces more than enough for everyone but yet in which 50,000 children die of starvation every day. We should solve those problems, not only because it is in our interests to do so but because it is morally right. The report is also about trade. I shall quote a part of "Common Crisis" which is relevant not only to this debate but to the problems in my constituency—

"without wide recognition and support from every sphere—global, regional and, especially at local levels—our proposals will have little impact."

I take this opportunity, without apologising to the House—I do not believe that it would expect such reticence—to mention the steel industry in my constituency, as represented by the Calder tube works. The men there have already supplied an order for tubes to Nigeria and have been invited to consider producing another. That would give them six months' work and provide tubes for the Oshogbo—Ede project in Nigeria. It is eminently sensible for the Minister for Overseas Development and the Secretary of State for Industry to accept that much good can come to Britain and my constituency in that way and that jobs can be provided and maintained in a way which is consistent with the basic theme of the Brandt report. In that way, we can help solve the problems of Third world countries such as Nigeria.

Unlike some of the speeches that have been made today, the response of the British public to the concept contained in the two Brandt reports has been profound. We saw that when 10,000 people lobbied the House and in the response by such distinguished people as the Archbishop of Canterbury. With all due respect to the hon. Member for Bridlington, as far as I am aware, the Archbishop of Canterbury has not yet applied for membership of the Militant Tendency. At a meeting a few months ago which I and the hon. Member for Enfield, North (Mr. Eggar) attended, the Archbishop of Canterbury went much further than any of my hon. Friends and said:

"I look forward to the day when, through the efforts of those who seek to arouse the public conscience, overseas aid becomes an election issue."

If that becomes the case, the British public will look for a better response than they may feel they have received in tonight's debate. The Archbishop was also right to remind us that for at least half the population of the planet the world is a bleak place. He was right to tell us of the indictment on us as a society of the more than 800 million people who, in the words of Robert McNamara, are "living in situations so deprived as to be below any rational definition of human decency."

The Archbishop looked forward to the speech to be made by the Foreign Secretary a few weeks later on 7 December, but he must have been disappointed by it. The Foreign Secretary's speech today sounded enthusiastic compared with the one that he made that day. He said:

"Aid is also an arm of foreign policy in both the political and economic senses. It serves the diplomatic purpose of promoting better relations. It promotes commercial interests."

The Foreign Secretary's approach lacks idealism. I recall as a young Socialist attending my first annual conference of the Labour party, which was also the last conference addressed by Aneurin Bevan, who made the profound statement:

"The burdens of public office are far too heavy to be borne for trivial ends."

As the Foreign Secretary and his colleagues address those problems and look forward to the conferences, they should remind themselves of those words.

The problems that we face should induce modesty on our part. We cannot, as some hon. Members have done tonight, criticise Third world countries when our unemployment is at its present unacceptable level. In the EC unemployment is 11.5 million, in the United States it is 12.5 million and in the OECD countries it is 30 million. We might have been successful in exporting militarism to Third world countries, but I doubt whether, despite all the pleas that we have heard this evening, we shall succeed in exporting monetarism. Why should we?

"Common Crisis" was right to call for the political role to restore growth to North and South. It is difficult for the developing countries to organise their domestic economies when commodity prices are falling rapidly and oil prices are increasing rapidly. That is where Britain and the Western world has a role to play. The British Government went to the Mexican summit to represent the British people without meaningful plans. The thousands who lobbied the House, and millions more, will expect more tangible proposals at Williamsburg and thereafter. Brandt argues for dialogue, and rightly so, but even dialogue becomes meaningless in the absence of constructive proposals. Britain as yet again a great chance at Williamsburg, so let us be serious in our efforts to provide a meaningful framework for negotiations by offering real proposals to

[Mr. Tom Clarke]

reform the world banking system, to improve our trade links, to consider the possibility of stabilising commodity prices and exchange rates, and to acknowledge the gap of \$85 billion between the resources that Third world countries can obtain and what they need. Above all, we should endorse the view of "Common Crisis" that military expenditure is very much more a part of the world's economic problems than it is its solution.

We are in a splendid position to invite a new initiative. The United Kingdom is well placed to co-ordinate action, because of our links with the EC, the Commonwealth and with North Africa. It is right for us, for our economy, for our industry and for the Third world to do so if only because it is one of the absurdities of our time that in an age where there are these massive problems of world poverty, men, mills and machinery in this country and in the Western world are standing idle. Our challenge is to have the moral and political courage to seek solutions to the problems that present a greater threat to peace than any other consideration, and time is not on our side.

In common with right hon. and hon. Friends I pay tribute to Willy Brandt and to the right hon. Member for Sidcup. In his introduction to "Common Crisis" Willy Brandt says:

"Every two seconds of this year a child will die of hunger or disease. And no statistic can express what it is to see even one child die . . . to see the uncomprehending panic in eyes which are still the clear and lucid eyes of a child . . . A new century nears, and with it the prospects of a new civilisation. Could we not begin to lay the basis for that new community with reasonable relations among all people and nations, and to build a world in which sharing, justice, freedom, and peace might prevail?" I feel that the House and country will give a positive response to that question and to "Common Crisis".

9.57 pm

**Mr. Anthony Beaumont-Dark** (Birmingham, Selly Oak): We have now had, I am glad to say, four debates on this subject since before Christmas and more and more we have had them at what most people would call a respectable time instead of in the small hours of the morning. This debate does great credit to those hon. Members who wanted to discuss this excellent but brave book called "Common Crisis", which is the second Brandt report.

The one point that emerges from the debate—there is nothing worse than hon. Members repeating each other time and again, but this is important—is our common recognition in the Western world that, however deep the problems we think we have and however much we say that we have unemployment and what we call poverty, our problems are not as bad as those of others. As I said in another debate, what we call poverty those who are in poverty call riches. In the Western world, if we have the will to help we have the means. We need to know not whether we have enough will to make the effort but whether we have enough will to make the sacrifice involved. In the Western world we have the two essentials for a good life—no man or his family need genuinely fear the knock on the door and the interruption of his freedom; and no man or his family have to fear the dawning of a new day and the hunger that it will bring.

Anybody who has travelled in the Caribbean will have seen what are called the play spots of the world. If one scratches a little way below the surface, there is much poverty and despair. If one sees films on television about

south American countries and the wonders of their ancient ruins, one should bear in mind the great problem, and one of the greatest evils in south America, that more people die there from starvation than died in the atom bombings about which everybody is so keen to talk.

Many of us go to Africa. We see the wild-life and some of the other wonders that civilised and prosperous man is able to see, yet still in the countries of Africa—

*It being Ten o'clock, the debate stood adjourned.*

#### BUSINESS OF THE HOUSE

*Ordered.*

That, at this day's sitting, the Motion in the name of the Prime Minister for the Adjournment of the House may be proceeded with, though opposed, until Twelve o'clock.—[Mr. Lang.]

**Mr. Beaumont-Dark:** Many people go to countries in Africa, as I have, to see the wonder of the wild-life, but we have only to move a little way off the track of what is called civilised entertainment to see that what we call poverty is regarded as riches in those countries.

The Western world, of which Britain is part, has to decide whether it is to go on and on, with one Brandt report after another, one debate after another in this House and in the United Nations, and one pious resolution after another, or whether, because it has the means, it has also the will to do what is necessary.

It was suggested that lower commodity prices will fuel austerity. That is nonsense. As I said in another debate in this House, lower commodity prices may mean lower inflation for us, but they mean despair for those who have to produce the commodities. The more our inflation rate is helped, the more the despair of those who have only their commodities to sell is increased.

The Treasury and Civil Service Committee, of which I had the honour to be a member, produced an early report on the international monetary problem because the Committee felt that the situation was of such gravity. The crisis is not confined to the undeveloped world or the developing world. The financial crisis, which could come unless matters are handled with care, concern and common sense, could envelop not just the undeveloped world but all of us.

To many of us, Brazil and Mexico are not really developing countries but countries with tremendous chances of prosperity. Yet, as my right hon. Friend the Member for Sidcup (Mr. Heath) said, many of the United States banks have about nine times their share capital tied up in what one hopes are the temporary problems of Mexico, Brazil, and other countries of South America. There are at present 40 developing countries in trouble; and 34 members of the IMF have troubles of their own in debt servicing.

The Select Committee's report, on page xvi, shows that the total debt of the developing countries has risen from \$63 billion in 1971 to about \$646 billion today. Unless the so-called Western and civilised part of the world is willing to tackle the problems and accept the sacrifices which must be made, there is no way in which the countries which have borrowed all those millions of dollars can have any hope of paying even the servicing costs, let alone repaying the capital.

This is the third debate on this subject in which I have intervened. I do so because they are interesting and useful to the extent that they help to focus our attention and that of our constituents by means of the little attention that the

subject is given in the press. This is a common crisis, as this excellent document says, but it will not go away. It will not go away because we debate it today and then say "Was it not a splendid debate and did not so and so make a lovely speech? Was it not all rather good and do not I feel more pure for having taken part in it? I think I shall now have a large Scotch."—which is always a good idea, anyway.

The problem will not go away because we debate it. We cannot turn soil into fertile land simply by wishing it were so. We cannot turn debts into credits and people's despair into dreams because we say "Would it not be a good idea?" In each inexorable year that has passed good and kind speeches have been made, yet people's debts have risen and nothing has been done about them. It may well be that debts will rise next year by another modest \$100 billion so that we can make the same speeches again. But the longer one puts off solving the problem of what to do about those to whom money has been lent but who have no hope of repaying it because of their problems and need for more help, the less chance we have of solving it.

I take little comfort when the president of the World Bank has to criticise his Government because of their lack of willingness to fund the IDA by another miserable \$18 billion. We are talking not about \$18 billion but about the world's need to find, by some means or other, the willingness to make some of the sacrifices that we shall all have to make. It is in our interests not to see the Brazils, Mexicos, Zaires, Malis and Kenyas go under. It is in our interests to make the necessary short-term painful financial adjustments.

I intervene, as I said, because speeches, as Nurse Cavell said about patriotism before she was shot, are not enough. It is not enough for us to say that we must do something. The need to do something is now because people are starving and the greatest tyranny that mankind faces in a world of tyranny is that of hunger. That is what the Brandt report and debates such as this are about when they are stripped down. They are about whether we care that tens of thousands of people starve to death a day. If we do care, the Western world has the means to prevent it. It is we who have to give the people who put us here the will. Unless we are willing to do that, debates such as this are just debates and we could be at home in our beds.

**Several Hon. Members rose—**

**Mr. Speaker:** Order. Before I call the next hon. Member, I should tell the House that it is anticipated that the wind-up speeches will begin at 11 o'clock. Four Labour Members and one Conservative Member are waiting to speak and I hope that I shall be able to call them all, because most of them have been sitting here throughout the debate.

10.8 pm

**Mr. Clinton Davies** (Hackney, Central): The House will have listened to the hon. Member for Birmingham, Selly Oak (Mr. Beaumont-Dark) with great interest. He spoke eloquently and with great concern for the problems of the hungry world, as he has done before. He is right to say that action is required, not words. It is anxiety about that which many hon. Members have felt when questioning the Government's actions. He spoke with moving eloquence which was in stark contrast to that of

the Foreign Secretary, and more particularly, to that of his hon. Friend the Member for Bridlington (Mr. Townsend), who made a thoroughly mean-minded speech.

I was concerned when the Foreign Secretary said, in his opening remarks, that a crucial prerequisite for aid was that the proposed recipient must follow sound financial policies, but sound by whose standards? Are the standards those of this Government or of the United States Government, or are the recipients required to follow the political policies that this Government, and especially the United States Government consider acceptable? I illustrate my concern by a recent visit that I made to central America, especially to Nicaragua, where, regrettably, the Government in so many respects seek to ape the policies of the United States. I entirely agree with my hon. Friend the Member for Waltham Forest (Mr. Deakins) that in an area of such dereliction it is grotesque that arms should be piled up to the measure of obscenity that occurs at present.

A tragedy of the Central American position is that the British Government decided unilaterally to sabotage an EC aid programme for Nicaragua, presumably at the behest of the Reagan Administration. It is interesting to observe the reasons that have been attributed for that action by the Foreign Office in a letter to my right hon. and learned Friend the Member for Dulwich (Mr. Silkin), the former Attorney-General, on 12 November. The Minister of State said:

"Other central American countries are better fitting for additional aid to the area."

I wonder which countries he means—El Salvador or Guatemala? What aid programmes have the Government launched in that part of the world?

The Minister of State went on to say:

"The Government of Nicaragua appears to give low priority to using resources for social and economic development". I wish to establish that that observation, from what I saw, is wholly unfounded and that the record of Nicaragua in these respects compares more than favourably with that of any other country that I visited in Central America.

The Minister of State went on to say:

"The Nicaraguan Government has imposed curbs on civil rights and is to be condemned for its treatment of minorities."

As Britain does not have full diplomatic representation in Nicaragua, perhaps that incurs for us the penalty of listening to or even believing what we are told by the State Department in its litany of deceit about the position in Nicaragua.

Not long ago vice-president Bush was alleging that Nicaragua led the Central American league for breaches of human rights. I gather that there have been 20 disappearances in Nicaragua during the past year but that is mitigated by the fact that 15 of those who disappeared suddenly reappeared. Contrast that to the position in El Salvador and Guatemala, where there are about 5,000 disappearances a year and countless deaths, yet those countries qualify for both economic and military aid from the United States.

The Government refer to the Miskito Indians and their conditions. It is a difficult problem facing most indigenous people. Our group was able to converse freely with people in the settlement of Sabasa, which has a population of 2,700 Miskito Indians. The group was not accompanied on that occasion by any Government spy. Those people had been moved to that area because of the problems on the borders, because of the incursions from Honduras. They did not like the way that they were treated initially by the Nicaraguan Government, or being moved, and many

[Mr. Clinton Davies]

wished to return to the places from which they came. They recognised, however, that the Government were trying hard. They had provided them with well-built wooden houses, rather close together and laid out somewhat unimaginatively, but piped water and electricity were soon to be provided. The inhabitants of that area, many of whom said that they would be happy to return, nevertheless said that the stories of decimation of their people that had been widely disseminated by Washington, essentially represented an untruth. Certainly, what we saw did not have the atmosphere of a concentration camp. There were no guards or fences. What we did see, a short distance away, was a small detachment of militia guarding a river bridge and it stopped us.

The Sandanistas admit their past mistakes in the treatment of the Miskitos, particularly their early clumsiness in dealing with a sensitive, indigenous minority. They have tried to compensate in some way for the pain of enforced removal by providing good living conditions. I have no reason to believe that they will change that attitude. That, I believe, is also the view of the hon. Member for Sevenoaks (Mr. Wolfson) and Lord Chitnis who accompanied me.

I am not saying that we can give Nicaragua unqualified praise. There are many political developments there, to say the least, that are somewhat offensive. Having said that, there is no doubt that the Nicaraguan Government have in many respects performed impressively. They have done so despite a state of emergency imposed as a result of well-armed counter-revolutionaries, supported by United States finance and weapons, who have been leading incursions into Nicaragua from Honduras and are causing great trouble. They have done so despite a substantial programme of covert aid from the United States—now approximating to some \$30 million—which is becoming less and less covert as day follows day. They have done so despite the isolation of Nicaragua by the United States.

Evidently, the United States believes that Nicaragua is beyond the pale, and the effect of its policies is to drive Nicaragua inexorably into the arms of the Cubans and the Soviet Union. The Nicaraguan Government's achievements have been made also in the face of the effects of the world recession and the heavy losses caused by floods and drought.

It is well to remember that it is not much more than three years ago that that Government inherited a country in ruins, with 50,000 Nicaraguans killed in the civil war and physical damage estimated at \$481 million. The Treasury was scoured by Somoza, leaving only \$3 million behind. They inherited the most terrifying shortage of foreign exchange. Somoza had also indulged in a scorched earth policy which decimated the country's industry. Nicaragua was saddled with a foreign debt of \$1.6 billion, accumulated from misspent foreign loans which the new Government have been dutifully repaying after a successful renegotiation. That is far more than most other countries in the area can possibly claim.

Let me briefly outline some of the developments that we saw. The Nicaraguan Government have clearly substantially improved the health of the people, their education and the living standards of the very poor. They

have made a major attack on cleaning up water supplies, which for too long were impure and led to terrifying disease.

Another asset that they possess, which many other countries do not have, is an ability to generate voluntary effort. The adult education programme that followed a literacy crusade in 1980 would cost twice as much if it relied on paid teachers rather than on the volunteer instructors who lead the education collectives—groups of six to 10 adults who are working towards the equivalent of a certificate of primary education.

About 148,000 adults are enrolled in the education collectives. The instructors are not more highly educated, but they are people who showed greater aptitude and enthusiasm during the literacy crusade in 1980. They are now undergoing special intensive training intended to cover four years of primary education in one year. A similar situation exists in relation to health. That is in a country enduring grinding poverty which is not being supported by Her Majesty's Government.

The country is also engaged in an impressive programme of land reform. In strictly economic terms the Nicaraguan Government are behaving in an orthodox fashion, trying to boost exports and holding down imports of luxuries. The president of the Central Bank told us that the Government intended to maintain the present division between the private and public sectors of the economy at 60 per cent. to 40 per cent.

Where Nicaragua differs from its neighbours is in its efforts to maintain minimum living standards for the poor. That has led to the imposition of austerity measures including the restriction of imports, which have a greater effect on people in the higher income groups who are certainly dissatisfied.

Where the British Government have sabotaged, Oxfam and Christian Aid have generously provided help, I pay tribute to them both. We should be helping. We should be helping to reduce tension by doing everything possible to curb the activities of armed groups operating from Honduras. We should be trying to persuade the Honduras and Nicaragua Governments to engage in bilateral discussions to reduce tension on the border.

We should be trying to persuade the United States to see some sense in recognising that by beleaguering Nicaragua it is driving that country into the arms of Cuba and the Soviet Union, because there is no other means of support. We should be trying to resurrect the EC aid programme which we sabotaged. So much still needs to be done. The will to do it exists. There is the will to help the poor. That exists in abundance.

Britain and its European partners have a major role to play. We do not share the recent history of domination and intervention in Latin America which colours the relations between the United States and Latin America. I am happy to say that we do not, and should not, see everything in terms of an East-West conflict. The conflict arises primarily through the problems which afflict so many parts of the Third world—gross poverty, grotesque inequality, hunger and disease. These constitute a constant threat to peace and stability.

10.22 pm

**Mr. Jim Lester (Beeston):** It is a pleasure to follow the hon. Member for Hackney, Central (Mr. Davis). He will understand that I cannot match his experiences in Central America, but some of the facts that he gave to the House

confirm the Select Committee view of that part of the world. I have enjoyed listening to many speeches from both sides of the House. I enjoyed in particular the speech by the hon. Member for Waltham Forest (Mr. Deakins) who argued in a reasoned way and gave the House valuable additional facts. My speech will not echo all that he said, but it will some of it.

I join hon. Members who thanked the Foreign Secretary for opening the debate. We are grateful to him, because it reflects the importance that he attaches to this international debate.

My right hon. Friend said that whether we like it or not, the world is interdependent, which affects relationships throughout the world. Some of us like that. Some of us have a sense of positive responsibility for other parts of the world and a sense of positive identification with peoples in all parts of the world, although not necessarily with their Governments. We certainly have a sense of criteria by which we can judge the problems of the world, the degree of those problems and the desire to influence events so that many more people have the chance of the good life. I shall not go into the moral arguments, but they are strong within the House and outside. It is that positive approach that I want to encourage.

There are others, like my hon. Friend the Member for Bridlington (Mr. Townend), who do not like the fact that we live in an interdependent world with all our relationships advancing one on another. He suggested that low commodity prices help to defeat inflation, yet he does not want to see people dying from starvation. That is so elementary a conflict that one is led to wonder how he ever came to such a conclusion. Perhaps he believes in monetary theory and the Malthusian principle.

When we consider the programmes of change that "Common Crisis" calls for, we must realise that we face a problem with some of our constituents and some of our colleagues. One of the problems is the complexity of agencies and the lingo of the aid programme. In a previous incarnation, as Under-Secretary of State for Employment, I became familiar with acronyms such as YOP, STEP, and CEP, but they pale into insignificance when compared with those that form part of the aid programme and the developing world. However, the sales of the first Brandt report and "Common Crisis" show a much wider interest in Britain and in other countries than many would have us believe.

I support entirely the speech made by my right hon. Friend the Member for Sidcup (Mr. Heath), who gave us a brilliant analysis and suggested positive ways in which we could do something. I support his call to my right hon. Friend for skilled initiatives from probably the most experienced team in the developed world in moving forward to "Common Crisis". Labour Members have talked about a change of tone in the Government. My right hon. and hon. Friends have talked about political will—I think that we have the necessary political will in our team. My right hon. and learned Friend the Chancellor of the Exchequer has been widely praised by independent people for his commitment to aid. They have rightly supported his action on the quota as chairman of the IMF interim committee. Few who know him well would doubt that he has as great a commitment as anyone in the Chamber.

My right hon. Friend the Foreign Secretary made a positive speech and is not a slouch in these matters. When he addressed the Royal Commonwealth Society recently he said:

"Co-operation is easier to talk about than to achieve. But it was never more important than now."

There is no question about the commitment of my right hon. Friend the Minister of State, who has already established his interest in aid and demonstrated the energy with which he pursues it. My right hon. Friend the Prime Minister, who is now a senior Western leader, is in a position to bring influence to bear on President Reagan. She is being asked by many to do that at the Williamsburg conference, and I hope that those who have already written it off as a tea party or a wasted exercise will be shown to be wrong. My right hon. Friend is a capable and energetic lady and I am sure that she is capable of springing a surprise, even on this issue. I hope that something will emerge from the Williamsburg conference that is very much stronger than tea.

I support the view of my right hon. Friend the Member for Daventry (Mr. Prentice) that it seems impossible to discuss world economic order at Williamsburg without discussing the second Brandt report at the same time. It is clear that they are indivisible. I support his comments about what we can do individually or collectively to influence our colleagues in Congress and in the Senate.

The hon. Member for Waltham Forest brought out some interesting facts about the proportion of aid. It is a cause of sadness to those who support the United States and many of its citizens that it seems to be very much the odd man out on this issue. We should miss no opportunity to tell our friends in that country that they should not underestimate our sense of sorrow at the growing isolationism that we see in their country by the adoption of its present attitude.

Brandt 2 does not replace Brandt 1, particularly in the important areas of water, health and food production. That highlights the continued importance of development aid and I welcome the fact that the Government have increased it and are continuing to do so in the current Estimates. The Government rightly concentrate their aid on the poorest nations, saying—and this is proven by the figures—that two-thirds of our aid is going to the poorest nations. But I hope that that does not become just a general incantation, because many people are concerned that not only should the aid go to the poorest nations but that it should go to the poorest in those nations. A doctor recently suggested that the measure of health in any country should be the number of taps and clean water wells per 1,000 of the population, rather than the number of hospital beds.

Those of us who support the development aid programme and seek to extend it want to see it used efficiently and effectively, and that means that we need a constant review of the methods and means by which it is applied, be it bilateral or multilateral, or provided through United Nations or European agencies. We should be cautious to make sure that whatever the channel, the aid goes through and in the end, is effective. We therefore welcome the ODA Sub-Committee selecting Bangladesh as a country in which we need to look at the total aid programme from all sources and evaluate it, with the help of hon. Members and all who are interested in the subject, so as to get a sense of independent direction.

The reason for constant review lies in the fact that we see a constantly changing pattern in the 160 countries that

[Mr. Jim Lester]

have received aid. Hon. Members have referred to the newly industrialised countries, and my hon. Friend the Member for Bridlington suggested that they had not really received any aid. If he looks at the facts he will see that many of them have had tremendous amounts of aid and have in the main justified the aid programme. It means that those countries need to adjust and cannot retain the protection they have had in the past. Equally, other countries for as far ahead as we can see will need basic food aid if they are to survive and maintain those minimum standards which my hon. Friend the Member for Birmingham, Selby Oak (Mr. Beaumont-Dark) mentioned, particularly those in sub-Saharan Africa.

Another reason why we need constantly to review our development aid is to ensure that the purpose of it going to the poorest countries—to help the poorest in those countries—is being achieved. Many infrastructure projects, for instance, sound fine, until one realises that they are not revenue-generating and are high in maintenance terms. Many of the poorest countries are not capable of supporting that level of maintenance. Those who have seen the Tanzanian railway know how difficult it has been to maintain the transportation on that system—because they have not been able to maintain the trains that were given to them.

Equally, we are concerned in terms of the green revolution, which is essential for food production. We must ensure that it does not benefit the better-off peasants and increase the number of landless and really poverty-stricken in those countries. In Brazil, for example, we have seen fast growth and the problems of poverty becoming increasingly chronic, with practical solutions seeming to be almost impossible.

When we recognise the principal condition which motivates most of us—the condition of hunger and the need to end hunger—our main concern must be that those who do not have enough to eat should have the incomes to buy adequate food or the means to produce it. That means our reviewing closely the way in which our aid goes forward. I have a reason for speaking in that way. I have evidence to show that if we can prove a direct relationship between the aid we give and the benefit to the poorest of the poor in those countries, we shall find a wide measure of support in this country that has not yet been tapped.

My hon. Friend the Member for Cambridge (Mr. Rhodes James) mentioned the valuable work being done

by a small group of dedicated people in eradicating polio. I went to the United Nations and heard about the medical breakthrough in oral rehydration salts, which is a way of treating the 13,000 children a day who die of dehydration, who can survive only by medication. There is now a pack of people's medicine—a pack of salts that any mother can give a child to help it over that critical period of two hours when it can die from dehydration and diarrhoea. It costs 5p a pack.

As a result, I have launched an appeal in my area with the active support of Radio Nottingham, Radio Leicester, Radio Derby and the Nottingham *Evening Post* to raise £25,000 to buy 500,000 packs of these oral rehydration salts—there they are, 5p—for a province in south Sudan to help 80,000 children for a year.

We launched this appeal on the "Afternoon Special" programme on Radio Nottingham with a man called Dennis McCarthy, who has a tremendous record of help and support in this area. It was humbling to receive the telephone calls, and it is heart warming to see the donations of £5 and £10 coming in to the bank. We have been going for just over a week only and we have already exceeded about £1,800. Many groups of disabled people, students and all sorts of other people, have telephoned and offered to start a project to raise enough money to help to buy 500,000 of these packs and to see them distributed by UNICEF to the most critical area in the Sudan, which many hon. Members will know has also about 500,000 Ethiopian refugees.

It has proved to me that if one can define the problem and put forward a technique that appeals in a way in which the public can help, they respond generously. It seems to be a lesson for all forums, whether it is a local voluntary forum, our national debate or the great international debate that we are interested in tonight.

I should like to put forward with the passion of my hon. Friend the Member for Hertford and Stevenage (Mr. Wells) the view that in Brandt and "Common Crisis" we see the problem and its urgency. I am convinced, from what we have heard tonight and from a variety of sources, that international resources exist to act on Brandt 2. I hope that the debate will give the Government the will to find the machinery to deliver in the highest traditions of internationalism of the House.

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[Continued in column 117]





MR. COLES No. 10

*With the compliments of*

ECONOMIC RELATIONS  
DEPARTMENT

A.J.C.  $\frac{15}{4}$

h.a.

FOREIGN AND COMMONWEALTH OFFICE  
LONDON SW1A 2AH

18/4/83

HOUSE OF COMMONS DEBATE ON 'COMMON CRISIS' - THE SECOND

BRANDT REPORT

OPENING SPEECH BY THE RIGHT HON FRANCIS PYM MP, SECRETARY OF  
STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

I warmly welcome the opportunity provided by this debate to set out the Government's reaction to the Brandt Commission's Memorandum 'Common Crisis'. This is an important document, and I am sure our debate today will reflect this. It is also timely, since it has a direct bearing on the work we are doing to prepare for a number of major international meetings during this year, which will deal with different aspects of the problems raised in the Memorandum. I am sure that the House will wish to express its gratitude to the hon Member for Heeley for introducing a preliminary discussion on the subject on 24 March, and I am glad the House now has the chance for fuller consideration.

At the outset, I would like to pay tribute to the Members of the Commission for their work. They have produced a thoughtful, forward-looking and practical analysis of a notoriously complex subject. In particular, I am sure the House will wish me to thank my right hon friend the Member for Bexley Sidcup for his contribution.

The Government has already welcomed the publication of the Report. It deals with many of the most grave and pressing issues which the international community faces at the present time, and concentrates on proposals for practical action.

We certainly accept the central message of the Memorandum: that we live in an interdependent world. Western governments are preoccupied by the strength and persistence of the present prolonged world recession and the very high levels of unemployment. Adjusting to the realities of the 1980s has not been easy for any of us. But the effects on developing countries have been particularly severe. Many have encountered the painful consequences of contracting markets, low commodity export prices, high oil import prices, record levels of interest rates, and mounting debt repayments.

Solutions must be found to the problems that face us all. But no one country or group of countries can provide the answer alone. As the title of the Memorandum puts it, what is needed is 'co-operation for world recovery'. I do not think there is any country more aware of this than the United Kingdom. We have major interests at stake. Our prosperity is deeply bound up with the well-being of our markets in both developed and developing countries.

Nearly a quarter of our trade is with the developing countries, and our banks and financial institutions do substantial business with them. There is of course a political dimension as well. We are not, and cannot be, indifferent to the political stability of the developing countries which account for so large a proportion of the world's population. And we are particularly concerned with sustaining the political and economic strength of our partners, in the Commonwealth. Indeed the Commonwealth is playing an increasingly important part in discussion of economic co-operation and related matters, and in exploring ways of improving the North/South dialogue. There is continual exchange of ideas about economic co-operation within the Commonwealth, at Commonwealth Finance Ministers and Heads of Government meetings, and also in the Ministerial meetings often arranged to coincide with meetings of other international organisations.

The long-term solution to the problems can only be a return to sustained growth, which must be achieved without rekindling inflation. We would be doing the greatest disservice to the developing countries as well as to ourselves if we plunged once again into an inflationary cycle. In Britain the Government has laid the basis for sustained growth by the success of its policies in combatting inflation.

There are signs that the worst of the problems are beginning to abate. 1983 should see at least the beginnings of recovery in the major economies, and an upturn in world trade. But this general recovery will need to be nurtured very carefully.

The essential components of a strategy for recovery are measures: to strengthen the international financial system, to manage international debt in an orderly fashion, to preserve the open trading system, and to give greater stability to exchange rates and interest rates.

The Brandt Commission's Memorandum gives top priority to the need for immediate measures to strengthen the international financial system. In fact, much progress has already been achieved. The International Monetary Fund's Interim Committee, in February, under the Chairmanship of My Rt hon and learned Friend, the Chancellor of the Exchequer, agreed on measures which will substantially increase the usable resources available to the Fund. There was also agreement that implementation of the quota increase should be brought forward two years to the beginning of next year. Many participants in the meeting have paid tribute to the skill and determination which My Rt hon Friend displayed in bringing about this speedy and practical agreement.

Looking ahead, the Interim Committee also agreed that there should be a review of the possibility of a further allocation of Special Drawing Rights, and we welcome this. The Government will certainly approach the subject with an open mind, and has of course noted the arguments put forward by the Brandt Commission for a substantial allocation to increase global liquidity.

We agree with the Memorandum also on the need for the International Monetary Fund to pay close attention to the economic and political realities of countries, when deciding on the conditions which should accompany a lending programme. Countries borrowing from the Fund must be encouraged to adopt sound economic policies that can be sustained. And the Fund must continue to keep in mind the political and social realities in these countries. Clearly, very difficult judgements are involved. But in our experience the staff of the Fund go to great lengths to negotiate workable programmes which try to strike the right balance. On the whole we think the system has worked well, and the judgements made have been broadly correct. We also agree that countries should be encouraged to take their problems to the Fund at an early stage.

The Memorandum emphasises the importance of development assistance. This year we expect the total United Kingdom aid programme to reach £1,125 million. This is an increase of almost 10 per cent over 1982-83 which, in the light of the expected level of inflation, should mean a useful increase in real terms. I feel sure the House will approve.

Our aid - and that of the OECD countries generally - is criticised by some for being too little, and by others for being too much. The former argue that it is simply a question of aid volume: that the more resources are transferred to the developing world, the faster the poorer countries will catch up with the others. But I think this is far too simplistic a view. Others take the opposite view, arguing from a position of pessimism about our ability to help developing countries at all in real terms. They question whether it would not be better to use these funds for something closer to home.

I think both these opposite views are unrealistic. But let us be clear that official aid is not and cannot be the main engine of development in poorer countries. It makes a vital contribution, particularly to the poorest countries; but it is of equal and crucial importance that the countries themselves pursue sound domestic policies. Both elements are essential.

We believe that the considerable amount of money which we spend overseas is effectively used, and, as I have said, the provision this year represents a substantial increase. It is an increase which, like our aid programme as a whole, brings benefit to us as well. It is entirely right that commercial considerations should play a part in our aid decisions. Aid brings opportunities from which our exporters benefit in the short term. And, in aiding the developing countries, we want also to help build up our export markets in the longer term.

The Memorandum wants emphasis to be given to the poorest countries and I think we all agree on that. Britain's record is pretty good: about two-thirds of our bilateral aid goes to the poorest countries, which is higher than the average for Western industrialised countries. The poorest countries obviously have difficulties in attracting commercial lending and private investment, and the kind of concessional finance provided by aid is particularly valuable and welcome to them. All aid to these countries is in the form of grants.



The Memorandum recommends that donors should cancel outstanding loan obligations which are due by the least developed countries. In fact, we have been at the forefront of moves to waive debts, not only from these but also from other developing countries. In most cases we have converted loans to grants, and in this way assisted their debt ratio and foreign exchange ratio. We accept the various aid targets mentioned, but, like our predecessors, we are not committed to a timetable for achieving them.

Traditionally we have also been generous contributors to the World Bank and regional development banks and UN agencies. We took the lead among the major donors in releasing our full contribution to the World Bank's International Development Association for its Sixth Replenishment, when the US Congress refused to authorise the full US contribution. We have made clear to the US Government the importance which we attach to a full US contribution for the remaining period and we have been consistent in supporting co-financing by the World Bank and the major commercial banks. We also support the new Special Assistance Programme, to speed up disbursements to those countries making a determined effort to sustain development despite their difficulties. We are in fact strongly in favour of the World Bank's structural lending programmes.

We welcome the importance given in the Memorandum to the beneficial role of private investment to developing countries. Again, it is a field in which the United Kingdom has been in the lead. Total investment by the United Kingdom in developing countries in 1981 was £4,980 million, equal to 2.01 per cent of our GNP. This is double the UN target of 1 per cent for combined government aid and private flows, and this is a very substantial achievement. £3,731 million of this figure was made up of private investment.

Mr Speaker, the House will be aware that the present Lomé Convention expires in February 1985. Negotiations for Lomé III are due to begin in September this year, and they will not be easy. Economic constraints, as well as the demands of our bilateral aid and our multilateral aid, mean that we must be realistic about the financial resources we can make available. It is our constant endeavour to try and ensure that the substantial resources provided by the Community are used effectively. The Lomé Convention has become central to the Community's relationship with developing countries. And more than half of them belong to the Commonwealth. Our objective is of course to secure a Lomé III Convention which will allocate the funds in the most efficient and cost-effective manner.

But the industrialised countries and the richer developing countries, and especially the newly industrialised countries, must all pull their weight, through both aid and trade. The newly industrialised countries can build upon existing regional organisations to which we, and other Western donors, have been substantial contributors. The aid already provided by OPEC through bilateral and multilateral channels has been very valuable. I hope that the OPEC countries will continue to support the development of the poorer countries.

By contrast, the aid contribution of the Communist countries is meagre and almost entirely devoted to underpinning their political clients. Vietnam, Mongolia, Cuba, Afghanistan, Laos and Cambodia, accounted last year for 90 per cent of the Soviet programme. And the programme itself was a small one. Despite exaggerated Soviet claims to the contrary, Development Assistance Committee estimates show that Soviet aid in 1981 was a miserly 0.15 per cent of GNP. That is equivalent to only one third of the UK effort. Our own estimates of Soviet aid for 1982 show that it is not increasing as a proportion of GNP. In fact, during the last few years, the Soviet Union has been a net beneficiary from Third World countries other than the handful of client states I have mentioned. It will receive more from the repayment of previous loans than it will be paying out; and thus, for the majority of developing countries, the Soviet aid programme is now a drain on the resources available for their development programmes.

The Memorandum addresses itself to the need to deal with the present strains on the international financial system. I have been greatly impressed by the capacity and will of the international financial institutions to adapt to the new problems which have confronted them. In recent rescue operations the International Monetary Fund and the Bank for International Settlements have successfully extended their roles as co-ordinators. The debt rescheduling arrangements of the Paris Club have been improved. Governments, central banks and commercial banks have had to learn to co-operate much more closely than before, to deal decisively with each case as it arises. That is a real gain that I hope will be permanent. British institutions have played an active and substantial role, and this has been widely acknowledged. Recent experience strengthens the belief that existing institutions can be, and are being, adapted to cope with the new situation. The packages put together for Brazil, Mexico and the Sudan show what can be done. Obviously uncertainties remain, and there is no room for complacency. But provided the international financial institutions, governments, central banks, and commercial banks all continue to show flexibility and a real willingness to act, the system will adapt and be able to deal with the problems.

The Memorandum also covers the other major element of the strategy which I mentioned: the preservation of the open trading system. It is right to do so because trade is ultimately more important than aid. The importance of the free market system cannot be over-emphasised. The more a developing country is able to export, the more it is able to stand on its own feet. Britain has played a major part in providing access to its markets to the products of developing countries. And recent figures show that the OECD countries as a whole account for some two-thirds of the total exports of the developing countries.

The record is thus a good one and we are determined to keep it that way. We strongly support the maintenance of free and fair trading. We should like to see all unnecessary barriers and distortions to trade dismantled. This was the basis of our approach to the GATT Ministerial Meeting last year. We must avoid at all costs a general relapse into protectionism. The European Community is one of the freest markets in the world, and must remain so. On commodities, which are an essential concern of developing countries, we have ratified the Common Fund and urged other countries to do likewise. We are active participants in the six main commodity agreements; we are ready to sign the International Jute Agreement; and would like the Community to join the International Sugar Agreement.

We are contributors to the International Monetary Fund's Compensatory Financing Facility and the EC STABEX Fund. Both these facilities will be reviewed in the course of the summer, and we will take a full and constructive part.

The final section of the Memorandum contains recommendations on ways of improving the North-South negotiating process. They reflect the recommendations of a report produced last year by a Commonwealth Group of Experts, which brought the experience of the Commonwealth to bear. We have commended that report to our European partners and to the OECD. We should like to see more flexible negotiating procedures, more conferences on single issues, more discussions in small groups, more co-operation between developing countries. Somehow we must get away from sterile arguments over empty communiqués, and strive instead for more limited agreements on practical matters. This is the spirit in which we shall approach the UNCTAD VI meeting in Belgrade in June.

The issues raised in this document will be under active discussion in UNCTAD VI, and in the other international meetings this year. The key events will be the OECD Meeting and the Williamsburg Summit in May, UNCTAD VI in June, the Annual Meetings of the IMF and World Bank in September, and the Commonwealth Heads of Government Meeting in November.

We shall approach them constructively on the basis of the strategy I have outlined. We shall be looking for practical agreements which will benefit developing countries.

Mr Speaker in conclusion I return to the central themes of the Brandt Commission's Memorandum<sup>1</sup>. The solution to the present difficulties of developing countries lies in an end to the world recession and the resumption of sound, lasting growth among industrial countries. This will enable developing countries to increase their exports, repay their debts and invest in the future. At the same time we must give all the support we can to the developing countries in their efforts to bridge the intervening period without sustaining any irreparable damage - political, economic or social. This task presents us with a formidable challenge. But the fact is that all countries are dependent on each other, that - like it or not - the world is in a state of interdependence; so the challenge is one that an enlightened promotion of our national interest would in any case require us to meet.

SIR ANTHONY PARSONS

BRANDT II

The Prime Minister has seen your minute of 23 February.

You may like to see my minute of 9 February (copy attached) together with the press line on Brandt II which the Prime Minister approved earlier.

A. J. COLES

1 March 1983



CONFIDENTIAL

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cc Mr. Walters  
Mr. Jackling

Prime Minister

MR. COLES ✓

You approved earlier (File 8) a  
statement of the Government's attitude to the Brandt report.  
A-J C 24

BRANDT II

See below

I have seen a copy of Alan Walters' note to the Prime Minister of 17 February. He and I have discussed this question on two or three occasions.

I assume that the Prime Minister will be commissioning a meeting with the Ministers concerned fairly soon about our general line at the many forthcoming multilateral economic meetings. I have in mind particularly Williamsburg, UNCTAD VI and the CHGM. My instinct is that Brandt II is going to have more impact on <sup>such</sup> meetings than Brandt I did. The publication of the report has been much better timed. Brandt I came out when the UN machine was already geared for the Special Session on Development of 1980. The machine was already moving down a predestined set of railway lines and could not accommodate Brandt I. Hence, although it attracted a great deal of interest in Britain, it was more or less ignored by the Third World who were at the time concentrating on Global Negotiations. On this occasion the Commission has given plenty of time for the G77 to hoist it on board and make maximum use of it at forthcoming international meetings.

My concern is with the political aspect of this exercise. My experience has taught me that most members of the G77 attach far more practical importance to bilateral aid, to Lomé and to the more efficient aspects of United Nations aid, than they do to these large multilateral exercises. But they tend to attach political importance to the attitude of the developed world towards eg Brandt or GNS. If we offend them by being too dismissive, it becomes more difficult for us to secure their support for political causes to which we attach importance. In a Parliamentary situation such as the General Assembly of the UN, our ability to secure support on matters of importance to us depends to some extent on our general standing amongst the Third World membership. This is affected by our attitude towards Sacred cows, such as Global Negotiations. At the same time, we obviously have to be careful not to be over-enthusiastic and thus to arouse unrealistic expectations that we are going to put our money where our mouth is.

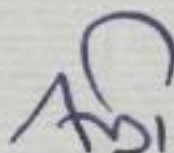
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- 2 -

In the context of Brandt II and all its future ramifications, we must be careful to get this balance right.



A.D. PARSONS  
23 February 1983

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*Handwritten:* B.F. 20/12 6

MR. WALTERS

Brandt and the New Bretton Woods

The Prime Minister has decided to take up the points in your minute of 17 February with the Chancellor at their next regular discussion.

*Faint rectangular stamp:* FEB 23 1983

21 February 1983

**CONFIDENTIAL**

CF

17 February 1983

ALAN WALTERS

①

PRIME MINISTER

PI 5f

24/2/83

MCS 2/2

Prime Minister

Yes MS

Worth mentioning at your next meeting with the Chancellor!

BRANDT AND THE NEW BRETTON WOODS

The appearance of Brandt II seems to be providing fuel for an effort to set up a Bretton Woods II. We are at least implicated by the enthusiastic welcome afforded to Brandt II by the PCO. And I believe that the Chancellor, with his interim Committee interests, is not entirely opposed to the idea of a BW II.

MCS 17/2

There would be three main elements of a BW II: first an agreement on exchange rate stability; it would be rather like an EMS writ large to embrace the OECD countries plus.

Secondly an agreement of a "convoy" kind; thus one of the objectives would be to ensure that countries with low budget deficits and low inflation pursue expansionary policies to lead the world out of recessions. This, in other words, is a version of the convergence ideas.

Thirdly, a massive increase in aid from North to South; this will almost certainly be presented as a "link" so that new SDRs created allegedly to offset a "shortage" of world liquidity, are simply passed to countries in the Southern (and Eastern) blocs.

All these measures have great technical defects, are politically and socially divisive, and will serve no good moral purpose. They are indeed dangerous.

Normally we could be content that the United States would not allow itself to be dragged into any such BWII. I think that may still be the case, but I am no longer sure. The uncertainties and confusions in recent American policy suggest that quite remarkable reversals may take place. George Schultz and even Donald Reagan have been making vague suggestions along a BWII line; Feldstein told me that neither Schultz nor Reagan really meant anything by it. But I'm not sure.

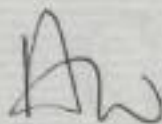
I am afraid that we may be bounced into a BWII by concerted pressure from the international bureaucrats, the EMS, and elements of the world banking fraternity, who see such an arrangement as way of getting out of their balance sheet difficulties. Our response

/to any such

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to any such pressure must be positive rather than simply saying no. There is a basis for going forward in terms of something like an international MTFS. Each country could agree to set in train its planned monetary guidelines and the projection of its fiscal deficits. There would need to be some monitoring and some modest system of sanctions. Such a system would make sense and would, contrary to the EMS, bring about a convergence and basis for stability.

You may think it is the time to talk to the Chancellor and the Foreign Secretary on these issues.



ALAN WALTERS  
17 February 1983

cc Mr. Kydd

*ECON 101*  
F.C.O. 2/12.

A.J.C. 19/2.

PRIME MINISTER

Brandt Commission Memorandum

You recently wrote to Herr Brandt about his Memorandum called "Common Crisis". The Memorandum will be published tomorrow, 10 February. Since the Brandt Commission are giving press conferences in Bonn and London today, we shall need to give Bernard and others guidance on the Government's attitude for use tomorrow.

I attach a draft press line and should be grateful to know whether you agree with it (it is similar to the line you took in your letter to Herr Brandt).

Willie Rickett will also be letting you have a line for Questions.

Are you content with the press line?

*Yes not*

*A. J. C.*

9 February 1983

'COMMON CRISIS'

BRANDT COMMISSION MEMORANDUM: ~~PRESS LINE~~

On the Record

The British Government welcomes the Brandt Commission's Memorandum and will study it carefully and constructively.

2. The Government shares the concern of the Brandt Commission about the economic difficulties facing the developing countries. We accept the message of the Memorandum, that we live in an interdependent world. We believe the international community must help developing countries to tackle the daunting problems which they face as they adjust their economies. All countries, developed and developing alike, are having to adjust to new economic conditions. The adjustments are painful for all of us, but particularly for developing countries.

3. The Brandt Commission's Memorandum is a timely and thoughtful contribution to international discussion. Action in many areas covered by the Memorandum will be discussed at a number of international meetings in 1983. These include the IMF Interim Committee, which is meeting this week in Washington, the OECD Ministerial meeting and the Williamsburg Economic Summit both in May, UNCTAD VI in June and the IMF/World Bank Annual meetings in the autumn. Britain will take a positive and flexible approach to the discussions with a view to agreeing practical action.



10 DOWNING STREET

THE PRIME MINISTER

9 February 1983

JR  
e fw  
*Dear Herr Brandt.*

Thank you for sending me an advance copy of your memorandum "Common Crisis", under cover of your letter of 27 January. I shall ensure that the memorandum receives the most careful study by the British Government.

The issues which you raise are of the very highest importance. Solutions must be found to the problems faced by developing countries in the present economic recession. Many of those countries have encountered severe difficulties with contracting export markets, low commodity prices, high oil prices and interest rates, and mounting debt repayments. The prosperity and well-being of developing countries is a matter of common interest to us all. We live in an interdependent world. As you know, I welcomed the message in your first Report that industrialised and developing countries share the same interests, and must work together to pursue them. This remains my view.

Your memorandum calls for an emergency programme of action. We have already taken rapid and decisive action in response to the debt problems of particular developing countries. Collaboration between the international financial institutions and the private banks has been greatly improved. I agree that more still needs to be done. There is no room for complacency. I hope that the next steps will be taken

/ at the meeting  
*[Signature]*



at the meeting of the IMF Interim Committee to agree a substantial increase in the Fund's resources. The scope for further action will be examined by world leaders in the other international meetings which will take place during this year. The Economic Summit at Williamsburg and the meeting of UNCTAD VI will be key events. There are, of course, practical constraints on what can be achieved, but you can be assured that the British Government will play a constructive role in the discussions.

The work of your Commission will be a valuable contribution to the discussion of these serious issues. We shall take full account of the ideas which you have put forward.

Yours sincerely  
Margaret Thatcher

---

Herr Willy Brandt

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

7 February, 1983

Dear John,

Type letter, pl.

A.S.C. 7/2.

Second Brandt Report

Thank you for your letter of 1 February <sup>with ASC</sup> enclosing an advance copy of the Memorandum by the Brandt Commission entitled 'Common Crisis' and a covering letter from Willy Brandt, co-signed by Edward Heath and Mr Ramphal. The Memorandum is due to be published on 11 February.

The first Brandt Report aroused intense public interest and there was some criticism of the Government's initial somewhat guarded response. A mass lobby of Parliament in May 1981 was organised. The Memorandum is a more technical document than the first report. It is better on analysis than prescription. It may well not arouse the same public feeling. Nevertheless I suggest that our response should be to give it a thoughtful welcome without endorsing the specific proposals in it. Some of the ideas are unrealistic and would have considerable public expenditure implications.

I attach a draft reply to Herr Brandt and a suggested line to take for use on first publication. We are preparing a detailed analysis of the Memorandum. Meanwhile you may find useful a summary of the principal recommendations.

Herr Brandt's letter does not give an address for replies. I will arrange to have the Prime Minister's reply delivered by our Mission in Geneva to the Brandt Commission Secretariat.

I am copying this to John Kerr (HM Treasury).

Yours ever

(J E Holmes)  
Private Secretary

A J Coles Esq  
Private Secretary  
10 Downing Street

CONFIDENTIAL

Miss O'Connor  
233 7033

D R A F T

From: Prime Minister

To: Herr Brandt  
Independent Commission on International Development  
Issues

Thank you for sending me an advance copy of your memorandum 'Common Crisis', under cover of your letter of 27 January. I shall ensure that the memorandum receives the most careful study by the British Government.

The issues which you raise are of the very highest importance. Solutions must be found to the problems faced by the developing countries in the present economic recession. Many of ~~the developing~~<sup>these</sup> countries have encountered severe difficulties with contracting export markets, low commodity prices, high oil prices and interest rates, and mounting debt repayments. The prosperity and well-being of developing countries is a matter of common interest to us all. We live in an interdependent world. As you know, I welcomed the message in your first Report that industrialised and developing countries share the same interests, and must work together to pursue them. This remains my view.

Your memorandum calls for an emergency programme of action. We have already taken rapid and decisive action in response to the debt problems of particular developing  
/countries

JCRAAU

countries. Collaboration between the international financial institutions and the private banks has been greatly improved. I agree that that more still needs to be done. There is no room for complacency. I hope that the next steps will be taken at the meeting of the IMF Interim Committee to agree a substantial increase in the Fund's resources. The scope for further action will be examined by world leaders in the other international meetings which will take place during this year. The Economic Summit at Williamsburg and the meeting of UNCTAD VI will be key events. There are of course practical constraints on what can be achieved, but you can be assured that the British Government will play a ~~full and~~ constructive role in the discussions.

The work of your Commission will be a valuable contribution to the discussion of these serious issues. We shall take full account of the ideas which you have put forward.

BRANDT COMMISSION MEMORANDUM

ORAL REPLY

We welcome the Brandt Commission's Memorandum and will study it carefully and constructively. We share the concern of the Brandt Commission about the economic difficulties facing developing countries. We accept the principal message of the Memorandum, that we live in an interdependent world. We believe that the international community must help developing countries to tackle the daunting problems which they face as they adjust their economies. All countries, developing and developed alike, are having to adjust to new economic conditions. The adjustments are painful for all of us, particularly for developing countries.

Action in the areas covered by the Memorandum will be under discussion at a number of international meetings in 1983, including the IMF Interim Committee Meeting, the OECD Ministerial Meeting, the Williamsburg Economic Summit and UNCTAD VI. We shall approach these meetings in a positive spirit and with the aim of agreeing practical action where appropriate. Against this background, the Memorandum is a timely and valuable contribution to the discussions.

BACKGROUND NOTE

BRANDT COMMISSION MEMORANDUM

The Brandt Commission will publish a second Memorandum which is effectively a follow-up to the first 1980 Brandt Report, on Thursday 10 February. This will be preceded by press conferences in Bonn and London the day before. The Prime Minister has received an advance copy of the Report from Herr Brandt and a draft reply to Herr Brandt's letter has been sent to No 10. The Memorandum is more technical and less far-reaching than the first Brandt Report. It concentrates more on practical steps to give immediate assistance to developing countries than on wide-ranging structural reforms. Most of the issues will be discussed in the series of international meetings this year described in the draft reply. Some of the ideas might be feasible, sometimes in modified form, but others are likely to cause difficulty for the United Kingdom and other industrialised countries. Since the Memorandum has only just been received the Prime Minister can take the line that we shall study it carefully, without commenting on the detailed proposals in it. There are already demands for a debate on the Memorandum.

Parliamentary Unit

Mr Thomas

copy 6: Private Secretary

J. Thomas a/2

## SECOND BRANDT REPORT

Problem

1. Parliamentary Unit have advised that the Prime Minister will need a defensive line to take on the Second Brandt Report at Question Time on Thursday 10 February, and News Department and ERD would like to brief the press on the Government's reaction to the Report. What line to take?

Recommendation

A 2. I recommend that the attached draft oral reply for the Prime Minister's Question Time should be sent to No 10 and that News Department and ERD should brief the press in terms of the attached  
B draft press line. News Department, ECD(E), Planning Staff, ESID, ODA, Cabinet Office, <sup>Dept. of Trade</sup> and HM Treasury concur.

Argument

- C 3. The Private Secretary has sent No 10 the preliminary draft public line to take on the Second Brandt Report, which I submitted on Friday. The Prime Minister is almost certain to be asked about the Brandt Report at Question Time on Thursday 10 February. Parliamentary Unit have asked for a draft oral reply with a short background note but no supplementaries. The attached draft follows closely the line which the Secretary of State approved on Friday.
4. News Department and ERD propose to give an unattributable briefing at 3.00 pm on Thursday 10 February, drawing on the material in the draft press line. The purpose of the briefing will be to indicate to the press that the Government is taking the Brandt Report seriously and giving it careful study. We propose to take the general line that the Report fits in to the process of international meetings on developing country problems which is already under way, and that it is an important and timely contribution.
5. Action is in hand separately about a debate in the House. We also propose to brief posts on the press line. We should avoid going into detail on the specific proposals in the Report.

L V Appleyard

L V Appleyard  
Economic Relations Department

9 February 1983

cc: PS/Mr Hurd  
PS/Lord Belstead  
PS/Mr Onslow  
PS/Mr Rifkind  
Mr Moynihan  
PS/PUS  
Sir W Rylie  
Sir J Bullard  
Mr Browning  
Mr Ainscow  
Mr Hayes  
Mr Thomas  
Mr Bowley, Parliamentary Unit



~~BJ 4/2~~



file kb  
cc Mr Ricketts  
book sent to Bro requesting  
to return with  
advice

10 DOWNING STREET

From the Private Secretary

1 February 1983

I enclose a copy of a letter which the Prime Minister has received from Mr. Willy Brandt, co-signed by Mr. Edward Heath and Mr. Ramphal. I assume that the memorandum to which the letter refers, entitled "Common Crisis", is already available to you since it is to be published on 9 February.

I should be grateful if in due course you could provide a draft reply to the enclosed letter for the Prime Minister's signature. We shall also doubtless need a public line on the new memorandum, for use at Prime Minister's Question Time and on other occasions. I should be grateful if you could provide guidance on this by the end of this week.

A. J. COLES

John Holmes, Esq.,  
Foreign and Commonwealth Office.

# ICIDI

ATZ (2)

INDEPENDENT COMMISSION ON INTERNATIONAL DEVELOPMENT ISSUES  
COMMISSION INDEPENDANTE SUR LES PROBLEMES DE DEVELOPPEMENT INTERNATIONAL

Chairman WILLY BRANDT Président

? CF-No

PPs' ?

27 January 1983

Mme Thatcher

We shall let you have a  
copy. A.T.C. 1/2

Dear Prime Minister,

Although the Brandt Commission concluded its initial task with the publication of our Report "NORTH-SOUTH: A PROGRAMME FOR SURVIVAL" in February 1980, Members of the Commission continued to meet over the last three years on the issues of international development dealt with in the Report. During that time we have been greatly encouraged by individual world leaders, by parliamentarians, by non-governmental organisations in the economic, social and political fields, but perhaps most of all by ordinary people the world over who seem to have found in the message of our Report the basis of a way forward and of hope for the future. At the same time, we have shared in the widespread disappointment at deterioration in the North-South dialogue and the worsening economic condition of North and South which we envisaged in the Report as the inevitable result of a failed North-South process.

We had recognised in 1979, and said as much in our Report, that "in the 1980s the world community faces much greater dangers than at any time since the Second World War". At the start of 1982, at our meeting in Kuwait, we saw those dangers looming large and committed ourselves to deepening our work on the emergency that was now at hand. We had in our Report put forward an Emergency Programme for the period 1980-85; but action was not taken. Matters have got worse. North and South, industrialised and developing economies alike, rich and poor countries, now face immense and, in some cases, critical dangers as the world economy continues its slide into depression.

At a meeting of Commissioners in Ottawa in December 1982 we finalised our work on this 'emergency' and we have produced a Memorandum through which we seek to alert world opinion to the 'Common Crisis' which now confronts mankind demanding immediate attention. We have not produced another Report; but a factual statement of where we are and what we believe are practical

.../2

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister of Great Britain and  
Northern Ireland  
10 Downing Street,  
London, S.W. 1  
Great Britain

and realistic proposals for world economic recovery. They are not, of course, a substitute for the long term changes we recommend in our Report, but the necessary pre-condition of placing human society in a position in which it can move forward to a future in which those changes can take place. We believe that this emergency action is essential if people anywhere are to have a valid basis of hope for the future.

Inevitably, we believe it to be a time of great challenge for world leaders. We are conscious that the decisions involved are not free of difficulty; but we are convinced that even to defer action of the kind we recommend will so imperil the future as to make even harder decisions necessary at a later stage. There are roles for many in relation to such decisions, but we naturally look for leadership to Governments and to the major International Institutions who are in the front-line of this Common Crisis.

*informally*  
Enclosed is an advance copy of our Memorandum which will be released on 9 February. We urge your consideration of it and we hope you might find it possible, on its publication, to give it your support and to help the international community to respond to its broad thrust in a positive and purposeful way.

We ourselves remain pledged to do all in our power to assist the international community in its responses to a challenge which we believe no one can ignore or avoid.

With our highest considerations,

*Willy Brandt*

Willy Brandt

Edward Heath

Shridath Ramphal

*Edward Heath* *Shridath Ramphal*

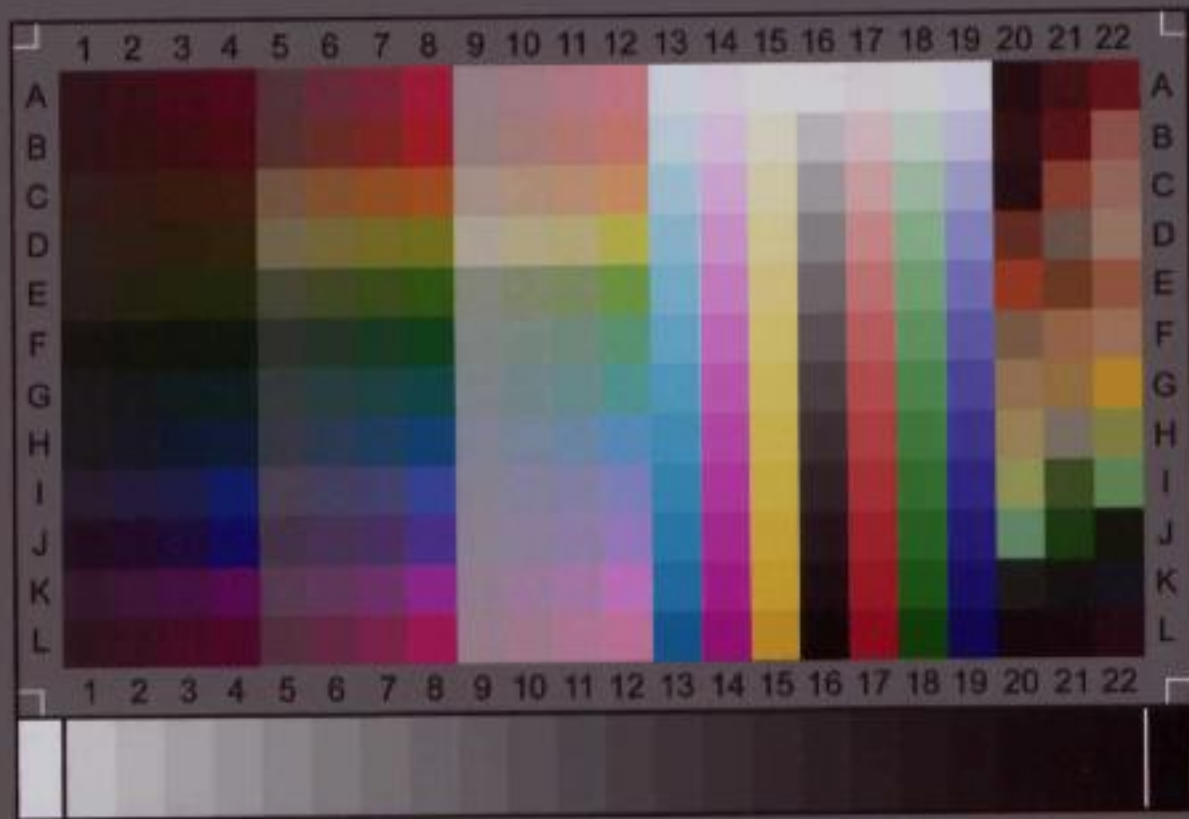
PART 4 ends:-

AJC to Dr Jose Juan de Oloqui

9-7-82

PART 5 begins:-

Willy Brandt to PM 21-1-83



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