

SIR ANTONY ACLAND

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cc Sir John Leahy  
 Mr Thomas  
 Mr Ainscow  
 Mr Coles ✓ *ML*  
 High Commissioner

--- Mr Muldoon circulated the attached draft statement of economic action at the end of this morning's Executive Session, for discussion with his colleagues at Goa. His Cabinet Secretary made it clear to me privately that the draft had been prepared before Mr Muldoon made his statement at the beginning of the Session, and did not reflect the fact that in his statement Mr Muldoon had proposed a core group of countries, not of Heads of Government. Mr Muldoon, he said, would have preferred a group of Heads of Government, but if that would be difficult for us or others would settle for a group of "special personal representatives" or senior officials.

2. This draft will be considered, together with Sir Peter Marshall's "non-paper", at a meeting of officials this afternoon. Sir Peter Marshall told me that he would be seeking to marry the two drafts in the direction of the non-paper. He thought that there would be general agreement on setting up a core group, and would be seeking to use his influence to discourage attempts to load a lot more into the group's terms of reference: the important thing was to focus agreement on getting the group set up.

3. I said to Sir Peter Marshall that I thought that the Prime Minister could just about go along with his "non-paper", but could not accept establishing the core group at Heads of Government level or any significant extension of the group's terms of reference.

*RTA*

ROBERT ARMSTRONG

25 November 1983

CHOGM : STATEMENT OF ECONOMIC ACTION

We the Heads of Government of the Commonwealth, meeting in New Delhi, recalling Mrs Gandhi's introductory comments on the global economic crisis, believe the grouping we represent is uniquely placed to suggest directions in which the international community as a whole may find more enduring answers to the problems that face us all. We have surveyed the current outlook for the international economy. We are acutely conscious of the grim prospects for developing countries, especially the poorer, and of the widespread hardship and suffering which are the hallmark of daily life of many of our peoples. The reality of global economic interdependence so clearly stated by Mrs Gandhi and other of our colleagues demands a systematic consideration of the root causes of our problems.

Since we last met in Melbourne there have been signs of recovery from the longest, deepest and most pervasive recession the world has experienced in the last 50 years. We welcome that recovery and the return to conditions of greater price stability in a number of developed and developing countries. Recovery however has to be seen against the background of a decline in world trade and output in 1982 without precedent in the post-war years.

We are deeply conscious that the recovery is unlikely to be sufficient in itself to overcome the fundamental problems which have been thrown into sharp relief by nearly a decade of slow and interrupted growth, a massive build-up in debt, intolerable levels of unemployment and other barriers to economic development.

Our discussions have served to underline the closely linked nature of many of the problems facing individual countries. We believe that the current framework for international co-operation is not adequate to deal with these problems, and needs to be updated and strengthened in a number of ways. We see three broad areas of special concern.

We are gravely concerned that the development process has been disrupted in many developing countries by the adverse trading and general economic conditions of recent years. We recognise that developing countries have immediate needs in the fields of debt, resource flows and balance of payments. The adjustment efforts of these countries, instead of being encouraged by adequate financing, are too often frustrated by the difficulties of securing sufficient resources from the international institutions. We believe that these institutions must play a larger role in helping to sustain resource flows to developing countries and that the poorer developing countries require much larger concessional flows than are currently forthcoming.

We recognise a return to sustained economic growth is a prerequisite to improved living standards in developing countries. We further believe that the prospects for achieving that goal would be greatly enhanced by making constructive adjustments to the trade and payments system so as to take account of the problems facing today's interdependent world economy.

We are increasingly concerned that there has been a gradual but persistent movement away from the spirit of Bretton Woods that had under-written the post-war expansion of world trade. Trade disputes are increasingly resolved outside a multi-lateral framework. A formidable array of new and expedient protectionist measures has arisen negating much of the progress made in successive GATT trade liberalisation rounds.

We recognise that governments everywhere are under pressure to resort to protectionist measures. We believe these pressures, however, result from fundamental changes in the nature of the world economy.

We conclude that what is required is not only a greater collective political resolve, but agreement to tackle some of the underlying causes which are giving rise to protectionist forces.

The build-up of sovereign debt is a matter of acute concern to us, particularly since high real interest rates are compounding the problem of servicing that debt. It is essential to maintain adequate financial flows to the growing number of countries in serious difficulties. Again we believe that these financial problems, like those of international trade, require a more systematic approach.

We welcome the convergence of views which has marked recent debate on the future of the trade and payments system. Important work has begun in a number of existing groupings. What is now needed is a more integrated approach.

There is an urgent need to expedite work on these issues. We believe that a preparatory process should now be initiated to that end. This would involve shaping appropriately constituted groups commanding the confidence of both the developed and developing world. It is essential that these groups should provide a realistic but representative basis for ongoing work.

There is a widespread belief among us that it will be necessary, as this process clarifies the areas of agreement which have been reached, to convene an international conference with universal participation.

We recognise the need for consultation with all the competent institutions and groupings to establish an agenda for action. Nevertheless we believe that the following broad areas of concern we have identified at this meeting would need to be included in any such examination.

- The management of international liquidity and debt.
- The role of reserve currencies.
- Countering protectionist pressures.
- Co-ordination of economic policies.
- Promoting appropriate domestic economic policies.
- Exchange rates.
- The role of the international finance institutions.
- Aid and other financial flows.
- Linkages between trade, payments and development.

In order to pursue the most effective ways of promoting action in these areas, we the Heads of Government of the Commonwealth have invited our colleagues, the President of \_\_\_\_\_, the Prime Minister of \_\_\_\_\_,

assisted by the Secretary-General and Finance Ministers as appropriate, to constitute a Commonwealth Action Group. The members of the group will consult with other members of the international community on the means to stimulate early action on a comprehensive appraisal of the trade and payments system. We have invited them to report progress to us through the good offices of the Secretary-General.

The task is formidable. Time is pressing. The Commonwealth stands ready to play its part in helping the world community meet this challenge.

FROM: J C Thomas  
DATE: 24 November 1983

Mr Coles ✓ *28*  
*u*

CC: Mr Fall  
Sir R Armstrong  
Sir A Acland  
Sir J Leahy  
Mr Ainscow  
Mr Goldsmith

MR MULDOON'S ECONOMIC PROPOSALS

1. The Prime Minister may like some advice on Mr Muldoon's opening speech on world economic issues.
2. His speech follows his letter of 20 October to Mrs Gandhi (attached) in which he sets out (page 3) a checklist of items to be covered in his proposed "comprehensive examination" of the trade and payments system.
3. These items are all, one way or another, already on the international agenda. They are covered in the Helleiner report, 'Towards a New Bretton Woods'; in the Economic Declaration of the Seventh Non-Aligned Meeting at Delhi in March 1983; by UNCTAD VI; and in the shopping list of the G77's call for "global negotiations".
4. Part of the Muldoon checklist will be covered by the work of the G10 deputies; and part could well be covered by the Chancellor's Trinidad proposal for a Commonwealth Group to look at the role of the IMF, World Bank and GATT.
5. Muldoon follows this letter in his speech. Much of it (from our point of view) is rather good: emphasis on sound domestic policies; recognition of importance of global recovery; interdependence between developed and developing; recognition that an unwieldy conference would not be in anyone's interest; and that any economic negotiating process which does not reflect the realities will never get off the ground.
6. He proposes that a system of weighted voting (as used in the IMF) will be necessary; and his main proposal is the establishment of a "Core Group of Heads of Government, with the assistance of the Secretary General, to take our views into other international meetings and fora".

/7. The

7. The majority at CHOGM are likely to be broadly in favour of Muldoon. But :

- (a) We know the Australians dislike the idea of an international monetary conference; and Mr Hawke told the Prime Minister he thought Mr Muldoon was "less fervent" in promulgating his ideas.
- (b) Mrs Gandhi will, I think, not want to be upstaged by Mr Muldoon. (She wants to promote her own NAM style of "global negotiations").
- (c) Mr Muldoon's suggestion of weighted voting is unlikely to go down well with the G77 members of the Commonwealth.

8. The weakness the Mr Muldoon's approach is :

- (a) that it is mostly wind, and
- (b) that his agenda is so broad that, if it were to be addressed seriously, we would risk being dragged onto a slippery slope leading back to the old global negotiations in a UN framework. Progress would not be possible.

9. So I recommend that the Prime Minister should, fairly early in the economic debate, maintain the line suggested in the talking points I submitted yesterday, adding a few (not too many) polite words about Mr Muldoon's speech.

9. On our tactics, I think at this stage we should maintain our opposition to an international monetary conference; should continue to urge acceptance of the Chancellor's Trinidad proposal; and should be ready, when it comes to communiqué bargaining, to contemplate a widening of the scope of the Chancellor's proposed group to include other areas for consideration which might be agreed (ie its terms of reference would have to be subject to consensus). We should resist the Muldoon notion that Heads of Government should form a "Core Group": it would be better to build on the group of officials from capitals suggested by Mr Lawson.

J C Thomas

J C Thomas

PRIME MINISTER

For your discussion of the World Economic situation  
you need the following briefs (spare copies in the attached  
folder)

A4	World Economic Issues
A7 and C2	Law of the Sea
B15 Revise	World Economic Prospects
B16	Relations with Developing Countries (including debts and UK aid policy)
B17 Addendum	Commonwealth Economic Studies
B18	Lome Negotiations
C3	7th Replenishment of IDA

You will also need the various Commonwealth Secretariat  
reports which you have in one of your main briefing Folders.

A.J.C.

24 November 1983



CHOGM : STATEMENT OF ECONOMIC ACTION

We the Heads of Government of the Commonwealth, meeting in New Delhi, recalling Mrs Gandhi's introductory comments on the global economic crisis, believe the grouping we represent is uniquely placed to suggest directions in which the international community as a whole may find more enduring answers to the problems that face us all. We have surveyed the current outlook for the international economy. We are acutely conscious of the grim prospects for developing countries, especially the poorer, and of the widespread hardship and suffering which are the hallmark of daily life of many of our peoples. The reality of global economic interdependence so clearly stated by Mrs Gandhi and other of our colleagues demands a systematic consideration of the root causes of our problems.

Since we last met in Melbourne there have been signs of recovery from the longest, deepest and most pervasive recession the world has experienced in the last 50 years. We welcome that recovery and the return to conditions of greater price stability in a number of developed and developing countries. Recovery however has to be seen against the background of a decline in world trade and output in 1982 without precedent in the post-war years.

We are deeply conscious that the recovery is unlikely to be sufficient in itself to overcome the fundamental problems which have been thrown into sharp relief by nearly a decade of slow and interrupted growth, a massive build-up in debt, intolerable levels of unemployment and other barriers to economic development.

Our discussions have served to underline the closely linked nature of many of the problems facing individual countries. We believe that the current framework for international co-operation is not adequate to deal with these problems, and needs to be updated and strengthened in a number of ways. We see three broad areas of special concern.

We are gravely concerned that the development process has been disrupted in many developing countries by the adverse trading and general economic conditions of recent years. We recognise that developing countries have immediate needs in the fields of debt, resource flows and balance of payments. The adjustment efforts of these countries, instead of being encouraged by adequate financing, are too often frustrated by the difficulties of securing sufficient resources from the international institutions. We believe that these institutions must play a larger role in helping to sustain resource flows to developing countries and that the poorer developing countries require much larger concessional flows than are currently forthcoming.

We recognise a return to sustained economic growth is a prerequisite to improved living standards in developing countries. We further believe that the prospects for achieving that goal would be greatly enhanced by making constructive adjustments to the trade and payments system so as to take account of the problems facing today's interdependent world economy.

We are increasingly concerned that there has been a gradual but persistent movement away from the spirit of Bretton Woods that had under-written the post-war expansion of world trade. Trade disputes are increasingly resolved outside a multi-lateral framework. A formidable array of new and expedient protectionist measures has arisen negating much of the progress made in successive GATT trade liberalisation rounds.

We recognise that governments everywhere are under pressure to resort to protectionist measures. We believe these pressures, however, result from fundamental changes in the nature of the world economy.

We conclude that what is required is not only a greater collective political resolve, but agreement to tackle some of the underlying causes which are giving rise to protectionist forces.

The build-up of sovereign debt is a matter of acute concern to us, particularly since high real interest rates are compounding the problem of servicing that debt. It is essential to maintain adequate financial flows to the growing number of countries in serious difficulties. Again we believe that these financial problems, like those of international trade, require a more systematic approach.

We welcome the convergence of views which has marked recent debate on the future of the trade and payments system. Important work has begun in a number of existing groupings. What is now needed is a more integrated approach.

There is an urgent need to expedite work on these issues. We believe that a preparatory process should now be initiated to that end. This would involve shaping appropriately constituted groups commanding the confidence of both the developed and developing world. It is essential that these groups should provide a realistic but representative basis for ongoing work.

There is a widespread belief among us that it will be necessary, as this process clarifies the areas of agreement which have been reached, to convene an international conference with universal participation.

We recognise the need for consultation with all the competent institutions and groupings to establish an agenda for action. Nevertheless we believe that the following broad areas of concern we have identified at this meeting would need to be included in any such examination.

- The management of international liquidity and debt.
- The role of reserve currencies.
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In order to pursue the most effective ways of promoting action in these areas, we the Heads of Government of the Commonwealth have invited our colleagues, the President of \_\_\_\_\_, the Prime Minister of \_\_\_\_\_,

assisted by the Secretary-General and Finance Ministers as appropriate, to constitute a Commonwealth Action Group. The members of the group will consult with other members of the international community on the means to stimulate early action on a comprehensive appraisal of the trade and payments system. We have invited them to report progress to us through the good offices of the Secretary-General.

The task is formidable. Time is pressing. The Commonwealth stands ready to play its part in helping the world community meet this challenge.

SECRETTHE NEW DELHI STATEMENT OF ECONOMIC ACTION

We are disturbed at the continuing troubled state of the world economy. We are acutely conscious of the grim prospects for developing countries, especially the poorer, and of the widespread hardship and suffering which are the reality of daily life. At Melbourne we declared our firm belief that the issues are so important that they require the personal commitment and involvement of political leaders. At New Delhi our priority has been common action in this common perspective.

Since we last met in Melbourne there have been signs of recovery from the longest, deepest and most pervasive recession the world has experienced in the last fifty years. Substantive progress has been made in reducing inflation and valiant adjustment efforts continue to be made by developing countries. But the recovery remains narrowly-based and its overall pace has been disappointing. Its impact continues to elude the developing world. Unemployment has become massive even in the developed countries.

? effects  
There are considerable dangers in the present situation. Recovery remains at risk because of continuing high real interest rates and uncertainty deriving from the international efforts of national policies. In particular we deplore the rising level of protectionism. We welcome, in this connection, the strong stance taken in defence of multi-lateral trading rules by the Commonwealth Report - 'Protectionism: Threat to International Order'. We reaffirm our support for a standstill in the adoption of 'new'

protectionist measures and agree to redouble our efforts to work for their progressive relaxation,

We recognise that developing countries have particular and immediate anxieties in the fields of debt and balance-of-payments problems and resource flows. Their adjustment efforts, instead of being encouraged by adequate financing are too often being frustrated by the difficulties of securing adequate resources for the international financial institutions. We believe that these institutions must play a larger role in helping to sustain resource flows to developing countries and that the poorer developing countries require much larger concessional flows than are currently forthcoming. We are concerned at the erosion of support for these institutions and call for renewed commitment to support their objectives and functions.

We regret the failure to establish more co-operative relations between the developed and the developing countries - growing interdependence and mutual interests make renewed efforts to establish such relations imperative. We believe that the way in which the Commonwealth itself functions is in itself evidence that dialogue is not only possible but fruitful. We commend the practical and business-like approach to negotiations recommended in the Commonwealth Report 'North-South Dialogue: Making it Work'. We shall stimulate action within the respective forums of North and South - the OECD and the G77 and the Non-Aligned Movement - in order to ensure serious discussion, and as far as possible implementation, of the recommendations it contains.

We have paid particular attention to the report

"Towards a New Bretton Woods" which was first submitted to Finance Ministers at their meeting in Port of Spain in September and to the account of their discussion given to us by the Prime Minister of Trinidad & Tobago. While not necessarily accepting all of the recommendations it contains, we broadly endorse the Report. We believe it affords a practical basis for seeking solutions. We accept that an intergovernmental process is called for, a process which takes into account the work being done by other groups and bodies. We agree with the view of Finance Ministers that an international conference could be the culmination of the process.

We have accordingly decided to establish a group composed of the governments of .....  
 .....  
 assisted by the Secretary-General, for the purpose of consulting widely within the international community, on the basis of the Report, on the most effective way of taking action.

We are asking Finance Ministers to follow the work of this contact group with particular attention and to review its progress when they next meet in Toronto before the 1984 annual meetings of the International Monetary Fund and World Bank. To facilitate the work of Finance Ministers we asked the contact group to submit a report in good time for the Finance Ministers Meeting.

At the same time, we must continue to make progress on urgent individual issues. We have invited the Prime Minister of India, in her capacity as the Chairman of this Heads of Government Meeting, to convey to all donor <sup>countries</sup> /our collective

emphasis on the need for individual contributions to the seventh replenishment of IDA at the highest possible level, <sup>x</sup> / so that the total should at the very least be at not less than the IDA 6 level.

- UK only committed to saying "a higher figure than \$9 bn".

x "on the basis of fair burden sharing among the donor countries".



COMMONWEALTH HEADS OF GOVERNMENT MEETING

NEW DELHI

ADDRESS BY RIGHT HON. R D MULDOON CH

PRIME MINISTER OF NEW ZEALAND

24 NOVEMBER 1983

Mrs Gandhi, I am delighted to have the opportunity to address my colleagues on the subject of the world economy.

For very good reasons, our discussions at Commonwealth Heads of Government Meetings are structured around the broadest possible subject headings. This agenda item - World Economic Issues - is in this tradition and not easy to bring into focus. Moreover, we have before us three substantial reports compiled by Commonwealth experts - one on protectionism, one on the North/South Dialogue, one on the steps that might be taken towards a new Bretton Woods.

I believe there is one issue that stands out - an issue that deserves attention at Head of Government level. Indeed, I believe it is the common theme to all three reports commissioned by the Commonwealth.

After a period of unprecedented economic growth ending in the mid 1970s, the world economy now faces a number of major structural difficulties. At worst, we could see financial collapse and major dislocation of the trading system. At best, there is the prospect of a fragile recovery and a succession of debt crises. These problems will not go away. The underlying issue, therefore, is that sooner or later they must be addressed in the form of a comprehensive examination of the trade and payments system.

The Commonwealth cannot by itself establish the broad terms and conditions for such an examination - that is for the international community acting as a whole, yet when I look around this meeting and see the diversity of groups that various of our colleagues can reach into - the Non-Aligned Meetings, the industrial summits, the OAU, ASEAN, CARICOM, the European Community, for example - we can see the significance of a strong, unified and above all realistic Commonwealth voice on the issue.

In the 18 months or so since I first began to use the metaphor of a new Bretton Woods to describe the scale and importance of the undertaking I had in mind, there has been a considerable change in international thinking on the matter. For example, it is now accepted wisdom to talk of debt/trade linkages. Even the United States has discovered that retrenchment in Mexico means unemployment in Texas.

The last ten years have taught us the hard way the real meaning of economic interdependence. It is in fact based on a very sound principle indeed - self interest.

Each country has an increasingly strong self-interest in the economic health of other countries. This was always so, but what has changed so markedly is the relative significance of these economic linkages. After three to four decades of the fastest growth ever of world output, productivity, world trade and international communications, economic interdependence has leapt out of the text books and landed on Ministers' desks everywhere.

Because of this interdependence, we cannot look at our current problems in a piecemeal fashion. Our handling of the threat from protectionism has long-term implications for the debt servicing capacity of many countries. Equally the interests of the international trading system are ill-served by Fund-sponsored austerity programmes that put disproportionate weight on slashing imports so as to achieve a quick statistical turnaround on the trade account.

I believe that these and many other issues confronting us must be addressed in a systematic examination of the trade and payments system. However, there are a few countries - including some of the key industrial powers - which resist this logic. I do not believe that any of these countries are arguing that everything is fundamentally sound with the world economy. After all, the agreement of the Summit Countries at Williamsburg to examine some of the major monetary reform issues, indicates at least an open mind on the issue. The Summit Countries know, for example, the damage caused by wild fluctuations in exchange rates - fluctuations which the last IMF World Economic Outlook estimated to be as great as 20 percent over periods as short as three months.

Moreover, on the trade side of the trade and payments equation, most of the summit countries are only too well aware of their continuing inability to find any solution to the problem of creeping protectionism - a problem which, left unchecked, could ultimately undermine political relationships even amongst themselves. Our Commonwealth study on protectionism, for example, estimates that as much as 50 percent of international trade is now "managed trade" - that is trade which is not, for a variety of reasons, conducted on the basis of the arms-length free market.

Perhaps they fear that the present system of trade and payments - for all the stresses that have been put on it - could be replaced by something worse. They fear that calls for a comprehensive appraisal of the trade and payments system - a new Bretton Woods, if you like - are nothing more than highly politicised attempts to tear down the existing structure of international economic relations.

These fears are real ones. Because they are real, they will have to be taken into account. If they are not taken into account, there will be no genuine dialogue between North and South, no new Bretton Woods, or indeed any comprehensive framework for looking at the trade and payments system.

That, in my view, is the only lesson we can draw from so many

years of failure to engage the key industrial powers in what were to be Global Negotiations. Politically, there is no profit in maintaining the stand-off that has developed. Economically, the weight of developing countries is now far too important to the economic performance of the developed world to ignore. As our own Chairman put it recently in her address to the General Assembly, I quote "To help developing countries is not mere largesse". Last year, the downturn in demand by developing countries for the exports of the OECD countries was sufficient to turn an expected small positive growth rate for the OECD area into a decline of 0.5 percent overall. That is the reality of interdependence.

I suspect it is premature to attempt to spell out with too much precision the framework that might be acceptable. As our report "Towards a New Bretton Woods" suggests, that has to be developed through consultation. Our test must be a practical one - what will be acceptable to those who are least convinced of the need for an examination at all?

The first point to make is that an unwieldy conference called together prematurely would not be in anyone's interests. Our Commonwealth report states the position very concisely, I quote, "The international community should now think in terms of a conference; but it is important to stress that it is a conference that will need the most careful preparation both as to substance and modalities. It should be seen as the culmination of a process rather than its initiation."

Proper preparation will be the key. In planning this, I believe it will be necessary to agree on some type of weighted voting system along the lines of the procedures used by the IMF's Interim Committee or the World Bank's Executive Board. For small countries like New Zealand the one country/one vote procedure has certain immediate attractions, but given a choice between form and substance, I would prefer to go for substance. The fact is that any negotiating or discussion process which does not reflect realities of world economic and political power will never become more than a theoretical possibility - a hardy annual for debate in other international forums.

I am sure that my Australian colleague and I, as representatives of two countries with significant interests in the export of beef and dairy products, look forward to that sunny day when we can simply outvote the United States 2 to 1 on their dairy and beef import policies. I am not sure that either Bob Hawke or I would be wise to hold our breath in anticipation of that day.

The shape of the table, the preparatory process, will be very important in building confidence. What is on the table, the issues, will be what the next generation will judge us by. In my letter to our Chairman, I have suggested a checklist of these issues. I would like to comment on one or two salient points.

My first point is that as a matter of commonsense any examination of the trade and payments system cannot be solely concerned with international linkages. Many of the problems that developed over the last ten years or so have domestic roots. Our economic management tools tended to have an inflationary bias to them. Irrespective of social and political conditions most countries find it very difficult to adjust their economies to sudden and unforeseen changes in the real price of oil, to shifts in key ratios such as the ratio of real wages to real interest rates. The point is not to deny the existence of external shocks, but rather to underline the importance of sound domestic policies.

This is the reason you will see on my indicative check-list matters such as macro-economic policy co-ordination and domestic adjustment policies.

Having pointed to the importance of domestic policies we should, I suggest, be very careful to avoid that other canard which is the mirror face of denying the importance of domestic policies. I am referring to the proposition that if we all followed sound domestic policies, the international economy would look after itself.

Apart from this representing political naivety of the highest order, it is nonsense. There must be rules of the games to govern international economic relations. In the field of international trade, for example, it took very detailed and explicit negotiations over industrial tariff by governments to set up the GATT framework before the international marketplace could function more effectively. Similarly, post-war currency convertibility was achieved only gradually and as a result of international negotiation. I suggest we will deal with the modern-day problems of the interdependent world economy again only through a very conscious and deliberately co-ordinated international effort. This is why I have included in my check-list subjects such as the role of reserve currencies, including the future evolution of Special Drawing Rights and alternative exchange rate regimes.

One of the consequences of the policy adjustments made by industrial countries over the last decade has been a massive downturn in the terms of trade of certain commodity exporters. In New Zealand's case we have had to frame our economic policies against the background of a 25 percent drop in our terms of trade as well as, of course, reduced access for some of our major export commodities to traditional markets. Because New Zealand is a relatively affluent country, we have been able to cope, though not without difficulty. For other commodity exporting countries that same percentage decline in their terms of trade represents what economists call an 'exogenous variable'. I call it an utter disaster. In these less affluent countries, the margin for acceptable adjustment to such changes simply does not exist. In New Zealand's case, the political consequences since the mid 1970s have been nothing more than an erosion in what had been a comfortable Parliamentary majority. I can live with that. In other countries that same proportionate decline in their terms of

trade has caused substantial political upheaval and possibly cost even one or two of them their constitutions. This is why I have argued consistently that economic instability can lead to political instability and even to strategic instability.

It is against this background that I included in my check-list of issues the future role and financial requirements of the IMF and its programmes, including the appropriateness of its current approach to conditionality. Conditionality must be made to fit the structural current account difficulties so many heavily indebted countries face today. The adjustment programmes must start from the recognition that it will take years to work through the backlog of problems that have been built up.

In spite of the fact that we live in what has been called an "aid-weary" world, I retain an unfashionable belief that for many countries, particularly small, isolated island countries with very limited resources, there will be a continuing long-term requirement for official development assistance. There are certain basic statistical facts to be taken into account. For example, one of our reports estimates that official development assistance finances about two-thirds of the deficits of the low income countries and about one-quarter of their total investment. For that category known as the least developed countries, the contribution made by ODA is thrown into even sharper relief: official development assistance provides over three-quarters of the investment in many of them.

I believe that any comprehensive examination of the trading system must keep a reasonably clear distinction between preserving an efficient international trading system and the question of resource transfers as such. The price of that, however, is a clear reaffirmation of the place of official development assistance. I believe it is essential to find ways of putting aid on a more assured basis. I have suggested distributing Special Drawing Rights on the basis of need and there are other possibilities canvassed in our report, Towards a New Bretton Woods.

Finally, my check-list obviously includes debt and protectionism. I have left these to last not simply because I believe them to be among the most worrying features of the world economy, but also because they demonstrate most clearly why it is so dangerous to believe we can rely on the recovery to solve all our problems.

I am not sure whether I could quite join Helmut Schmidt who recently dismissed hopes of a world economic recovery as "an American illusion". I see the recovery as having essentially stabilised a very dangerous contraction of the world economy. In 1982 the world economy went backwards. World production declined by an estimated 2% and the volume of world trade declined by 2.5%. Had this continued into 1983, I believe it would have put impossible strains on world economic and political stability. The recovery certain developed countries are now experiencing is more than an illusion, but it has to

be seen against that perspective. It has turned the tide against forces of contraction of world output and trade unprecedented in our post-war experience. This welcome cyclical recovery will not tackle the underlying roots of protectionism since clearly the growth of protectionism predates the recession. Protectionism, which is by no means confined to the OECD countries, will persist in the developed world if only because no-one is predicting growth rates which will reduce the roughly 35 million unemployed in the OECD area as a whole.

The recovery will not do much to alleviate the debt burdens of many developing countries. The Commonwealth Study, "Towards a new Bretton Woods", estimates that there are as many as 40 countries which have been reported to have agreed to debt-reschedulings or to be in substantial payment arrears. In the ten-month period to June 1983, the value of cross-border debt being renegotiated with commercial banks has been calculated as being over 20 times larger than in any previous year. We get daily reports indicating that some of the most seriously indebted countries are in default in all but a formal sense.

Although many of these issues which I have raised are highly technical, the difficulties in resolving them are fundamentally political. As Heads of Government, we know that political will does not materialise from thin air. Political will has to be created. Whatever the problem, the process of creating political will is much the same the world over. You get a manageable number of the right people together. You put before them the right programme for discussion. You draw up proposals that address the real problems. You then negotiate an agreement which each participant in those negotiations takes back to his people to see whether this is within the bounds of acceptability. This is what happened in 1944 at Bretton Woods and later at Havana. Each country then had to ask itself - this is part of a world programme agreed by the world community. Now are we in or are we out? The vast majority of then sovereign countries decided they were in. The rules and institutions that grew out of that process underwrote an unprecedented period of expansion and growth.

I believe we face comparable problems today that require us to develop, as a conscious act of policy, the means to generate the political will required to tackle those problems. We need an acceptable process and a sensible agenda. To achieve that will mean stepping a little outside the comfort of established group positions. That, I suggest, is the purpose of Commonwealth Head of Government meetings. In political life, whether one is operating in the domestic or international arenas, there are relatively few opportunities to seize the high road - to point to a way forward. That is the opportunity we have over the next few days. I hope we can rise to that challenge, not simply in finding appropriate language to be included in our communique, but in identifying ways to carry forward our views.

One which I have suggested is to establish a core group of Heads of Government, with the assistance of the Secretary-General,

to take our views into other international meetings and forums. It is important that the consensus we reach here in New Delhi is carried into the wider international community to provide the platform for early action.

If the Commonwealth can speak with a clear and persuasive voice, a sensible programme, and a clear vision of what can be achieved, we can point the way. I have no doubt that if we decline to rise to the challenge this year or next year, we will find ourselves returning again and again to this underlying issue until finally we reach a consensus to establish an acceptable framework for conducting international economic relations in the late 20th century.

25 NOV 1983

## New institutions

There is much to be said in favour of the view expressed by Mrs. Margaret Thatcher that no effort should be made to create new international institutions to solve the difficulties faced by the world economy. Experience has shown that the mere proliferation of institutions does not make the solution of problems any easier. It may indeed make a solution more difficult because of overlapping areas of responsibility and duplication of effort. The resulting wastage of resources in a world where resource scarcity is increasing is hardly helpful in this connection. There is no doubt that if any new institution is to play any useful role at all, it must have very high quality staff placed in an appropriate setting and given the basic resources needed for it to function efficiently. If adequate resources are then not made available to it to perform the functions for which it was set up, this does not make sense. Overhead costs tend to be too heavy. If such resources are in fact made available, they often tend to be provided to it at the expense of existing institutions, whose operational efficiency is thus reduced. This must necessarily happen when resources come ultimately from the same pool. While some addition to the pool may sometimes take place in the short run because of the creation of the new institution, those providing (or authorising the provision of) resources always have the size of the overall pool in mind. Many of those who so light heartedly propose the creation of new institutions do not see this point. They seem to feel that the sleight of hand performed when a new institution is created will not be noticed by those — very hardheaded — persons who take decisions in such matters.

The issue of course does not concern only the availability of resources to the different institutions in the field. These institutions in turn are bound to keep assistance received by particular recipients from various other sources in mind before determining the volume of assistance they themselves dispense. Against this background, it would appear to make sense to propose new institutions only when two conditions are satisfied. First, the function to be performed by the new institution must be not merely of critical importance in its own right but clearly not part of the functions of an existing and actively functioning institution. Second, the institution must be of such a character that it is likely to attract resources independently of those already in a well recognised common pool. All this becomes particularly important in the international sphere where the various governments providing resources generally have a clear idea of the total of the claims of all the relevant institutions. For the World Bank and the IMF, these arguments apply with full force in so far as they are resource-raising-and-providing institutions. However, both of them and GATT play another important role, which is to provide a forum for international discussion, and an instrument for the implementation, of international policy in their respective spheres. It seems doubtful that new institutions performing essentially similar functions could play any really useful role, except perhaps in an extremely limited or regional context. This is because, for the new institution to be successful, it would generally have to have the support of exactly those countries whose unwillingness to modify the functioning of existing institutions has generated the demand for the new institution. The whole process is, therefore, likely to be self-defeating. Mrs. Thatcher was, therefore, basically correct in asserting that the IMF, the World Bank and GATT could be further adapted and developed in the spirit which inspired the founders of Bretton Woods. Those whose efforts in this direction have not succeeded during the last few years in the very dispiriting environment that has prevailed may be excused for being impatient with this argument. But, there is indeed no alternative. Their chances of improving these existing institutions even if they appear to be bleak at the moment, are greater than their prospects of getting approval for new institutions that are truly effective.





Prime Minister.

MR COLES

c Mr Ingham

cc Mr Fall  
Sir Antony Acland  
Sir John Leahy  
Mr Thomas  
Mr Ainscow  
High Commissioner

My New Zealand counterpart this afternoon gave me an advance copy of the speech which Mr Muldoon intends to make when he opens the discussion on world economic issues tomorrow afternoon.

- 2. I attach copies herewith.
3. We shall have opportunities to brief the Prime Minister on this, and to suggest any points which she might make during the course of the discussion.

RA

ROBERT ARMSTRONG

23 November 1983

SPEECH NOTES

RIGHT HON. R.D. MULDOON, C.H.

PRIME MINISTER OF NEW ZEALAND

ADDRESS TO COMMONWEALTH HEADS OF GOVERNMENT MEETING

NEW DELHI,

23 - 29 NOVEMBER, 1983

1.

MRS GANDHI,

I AM DELIGHTED TO HAVE THE OPPORTUNITY  
TO ADDRESS MY COLLEAGUES  
ON THE SUBJECT OF THE WORLD ECONOMY.

FOR VERY GOOD REASONS,

OUR DISCUSSIONS AT COMMONWEALTH HEADS OF GOVERNMENT MEETINGS  
ARE STRUCTURED AROUND THE BROADEST POSSIBLE SUBJECT HEADINGS.

THIS AGENDA ITEM -

WORLD ECONOMIC ISSUES -

IS IN THIS TRADITION

AND NOT EASY TO BRING INTO FOCUS.

2.

MOREOVER, WE HAVE BEFORE US

THREE SUBSTANTIAL REPORTS

COMPILED BY COMMONWEALTH EXPERTS -

ONE ON PROTECTIONISM,

ONE ON THE NORTH/SOUTH DIALOGUE,

ONE ON THE STEPS

THAT MIGHT BE TAKEN

TOWARDS A NEW BRETTON WOODS.

I BELIEVE THERE IS ONE ISSUE THAT STANDS OUT -

AN ISSUE THAT DESERVES ATTENTION

AT HEAD OF GOVERNMENT LEVEL.

INDEED, I BELIEVE IT IS THE COMMON THEME

TO ALL THREE REPORTS COMMISSIONED BY THE COMMONWEALTH.

AFTER A PERIOD OF UNPRECEDENTED ECONOMIC GROWTH  
ENDING IN THE MID 1970s,  
THE WORLD ECONOMY NOW FACES  
A NUMBER OF MAJOR STRUCTURAL DIFFICULTIES.

AT WORST,  
WE COULD SEE FINANCIAL COLLAPSE  
AND MAJOR DISLOCATION  
OF THE TRADING SYSTEM.

AT BEST,  
THERE IS THE PROSPECT OF A FRAGILE RECOVERY  
AND A SUCCESSION OF DEBT CRISES.

THESE PROBLEMS WILL NOT GO AWAY.

THE UNDERLYING ISSUE, THEREFORE, IS  
THAT SOON OR LATER THEY MUST BE ADDRESSED  
IN THE FORM OF A COMPREHENSIVE EXAMINATION  
OF THE TRADE AND PAYMENTS SYSTEM.

THE COMMONWEALTH CANNOT BY ITSELF  
 ESTABLISH THE BROAD TERMS AND CONDITIONS  
 FOR SUCH AN EXAMINATION -  
 THAT IS FOR THE INTERNATIONAL COMMUNITY  
 ACTING AS A WHOLE,  
 YET WHEN I LOOK AROUND THIS MEETING  
 AND SEE THE DIVERSITY OF GROUPS  
 THAT VARIOUS OF OUR COLLEAGUES CAN REACH INTO -  
 THE NON-ALIGNED MEETINGS,  
 THE INDUSTRIAL SUMMITS,  
 THE OAU, ASEAN, CARICOM,  
 THE EUROPEAN COMMUNITY,  
 FOR EXAMPLE -  
 WE CAN SEE THE SIGNIFICANCE  
 OF A STRONG, UNIFIED  
 AND ABOVE ALL REALISTIC  
 COMMONWEALTH VOICE ON THE ISSUE.

IN THE 18 MONTHS OR SO  
 SINCE I FIRST BEGAN TO USE THE METAPHOR  
 OF A NEW BRETTON WOODS  
 TO DESCRIBE THE SCALE AND IMPORTANCE  
 OF THE UNDERTAKING I HAD IN MIND,  
 THERE HAS BEEN A CONSIDERABLE CHANGE  
 IN INTERNATIONAL THINKING  
 ON THE MATTER.

FOR EXAMPLE,  
 IT IS NOW ACCEPTED WISDOM  
 TO TALK OF DEBT/TRADE LINKAGES.

EVEN THE UNITED STATES HAS DISCOVERED  
 THAT RETRENCHMENT IN MEXICO  
 MEANS UNEMPLOYMENT IN TEXAS.

THE LAST TEN YEARS HAVE TAUGHT US THE HARD WAY  
THE REAL MEANING OF ECONOMIC INTERDEPENDENCE.

IT IS IN FACT BASED ON A VERY SOUND PRINCIPLE INDEED -  
SELF INTEREST.

EACH COUNTRY HAS AN INCREASINGLY STRONG SELF-INTEREST  
IN THE ECONOMIC HEALTH OF OTHER COUNTRIES.

THIS WAS ALWAYS SO,  
BUT WHAT HAS CHANGED SO MARKEDLY  
IS THE RELATIVE SIGNIFICANCE  
OF THESE ECONOMIC LINKAGES.

AFTER THREE TO FOUR DECADES  
OF THE FASTEST GROWTH EVER OF WORLD OUTPUT,  
PRODUCTIVITY,  
WORLD TRADE AND INTERNATIONAL COMMUNICATIONS,  
ECONOMIC INTERDEPENDENCE  
HAS LEAPT OUT OF THE TEXT BOOKS  
AND LANDED ON MINISTERS' DESKS EVERYWHERE.

BECAUSE OF THIS INTERDEPENDENCE,  
WE CANNOT LOOK AT OUR CURRENT PROBLEMS  
IN A PIECEMEAL FASHION.

OUR HANDLING OF THE THREAT FROM PROTECTIONISM  
HAS LONG-TERM IMPLICATIONS  
FOR THE DEBT SERVICING CAPACITY  
OF MANY COUNTRIES.

EQUALLY THE INTERESTS OF THE INTERNATIONAL TRADING SYSTEM  
ARE ILL-SERVED BY FUND-SPONSORED AUSTERITY PROGRAMMES  
THAT PUT DISPROPORTIONATE WEIGHT ON SLASHING IMPORTS  
SO AS TO ACHIEVE A QUICK STATISTICAL TURNAROUND  
ON THE TRADE ACCOUNT.

I BELIEVE THAT THESE  
AND MANY OTHER ISSUES CONFRONTING US  
MUST BE ADDRESSED IN A SYSTEMATIC EXAMINATION  
OF THE TRADE AND PAYMENTS SYSTEM.

HOWEVER, THERE ARE A FEW COUNTRIES -  
INCLUDING SOME OF THE KEY INDUSTRIAL POWERS -  
WHICH RESIST THIS LOGIC.

I DO NOT BELIEVE THAT ANY OF THESE COUNTRIES ARE ARGUING  
THAT EVERYTHING IS FUNDAMENTALLY SOUND  
WITH THE WORLD ECONOMY.

AFTER ALL,  
THE AGREEMENT OF THE SUMMIT COUNTRIES AT WILLIAMSBURG  
TO EXAMINE SOME OF THE MAJOR MONETARY REFORM ISSUES,  
INDICATES AT LEAST AN OPEN MIND ON THE ISSUE.

THE SUMMIT COUNTRIES KNOW, FOR EXAMPLE,  
THE DAMAGE CAUSED BY WILD FLUCTUATIONS  
IN BILATERAL EXCHANGE RATES -  
FLUCTUATIONS  
WHICH THE LAST IMF WORLD ECONOMIC OUTLOOK  
ESTIMATED TO BE AS GREAT AS 20 PER CENT  
OVER PERIODS AS SHORT AS THREE MONTHS.

MOREOVER, ON THE TRADE SIDE  
OF THE TRADE AND PAYMENTS EQUATION,  
MOST OF THE SUMMIT COUNTRIES ARE ONLY TOO WELL AWARE  
OF THEIR CONTINUING INABILITY TO FIND ANY SOLUTION  
TO THE PROBLEM OF CREEPING PROTECTIONISM -  
A PROBLEM WHICH, LEFT UNCHECKED  
COULD ULTIMATELY UNDERMINE POLITICAL RELATIONSHIPS  
EVEN AMONGST THEMSELVES.

OUR COMMONWEALTH STUDY ON PROTECTIONISM, FOR EXAMPLE,  
ESTIMATES THAT AS MUCH AS 50 PER CENT OF INTERNATIONAL TRADE  
IS NOW "MANAGED TRADE" -  
THAT IS TRADE WHICH IS NOT FOR A VARIETY OF REASONS,  
CONDUCTED ON THE BASIS  
OF THE ARMS-LENGTH FREE MARKET.

PERHAPS THEY FEAR  
THAT THE PRESENT SYSTEM OF TRADE AND PAYMENTS -  
FOR ALL THE STRESSES THAT HAVE BEEN PUT ON IT -  
COULD BE REPLACED BY SOMETHING WORSE.



THEY FEAR THAT CALLS FOR A COMPREHENSIVE APPRAISAL  
OF THE TRADE AND PAYMENTS SYSTEM -  
A NEW BRETTON WOODS, IF YOU LIKE -  
ARE NOTHING MORE THAN HIGHLY POLITICISED ATTEMPTS  
TO TEAR DOWN THE EXISTING STRUCTURE  
OF INTERNATIONAL ECONOMIC RELATIONS.

THESE FEARS ARE REAL ONES.

BECAUSE THEY ARE REAL,  
THEY WILL HAVE TO BE TAKEN INTO ACCOUNT.

IF THEY ARE NOT TAKEN INTO ACCOUNT,  
THERE WILL BE NO GENUINE DIALOGUE BETWEEN NORTH AND SOUTH,  
NO NEW BRETTON WOODS,  
OR INDEED ANY COMPREHENSIVE FRAMEWORK  
FOR LOOKING AT THE TRADE AND PAYMENTS SYSTEM.

THAT, IN MY VIEW, IS THE ONLY LESSON WE CAN DRAW  
FROM SO MANY YEARS OF FAILURE  
TO ENGAGE THE KEY INDUSTRIAL POWERS  
IN WHAT WERE TO BE GLOBAL NEGOTIATIONS.

POLITICALLY,

THERE IS NO PROFIT  
IN MAINTAINING THE STAND-OFF  
THAT HAS DEVELOPED.

ECONOMICALLY,

THE WEIGHT OF DEVELOPING COUNTRIES  
IS NOW FAR TOO IMPORTANT  
TO THE ECONOMIC PERFORMANCE  
OF THE DEVELOPED WORLD  
TO IGNORE.

AS OUR OWN CHAIRMAN PUT IT RECENTLY

IN HER ADDRESS TO THE GENERAL ASSEMBLY,  
I QUOTE,

"TO HELP DEVELOPING COUNTRIES  
IS NOT MERE LARGESSE".

LAST YEAR,

THE DOWNTURN IN DEMAND BY DEVELOPING COUNTRIES  
FOR THE EXPORTS OF THE OECD COUNTRIES  
WAS SUFFICIENT TO TURN  
AN EXPECTED SMALL POSITIVE GROWTH RATE FOR THE OECD AREA  
INTO A DECLINE OF 0.5 PER CENT OVERALL.

THAT IS THE REALITY OF INTERDEPENDENCE.

I SUSPECT IT IS PREMATURE

TO ATTEMPT TO SPELL OUT WITH TOO MUCH PRECISION  
THE FRAMEWORK THAT MIGHT BE ACCEPTABLE.

AS OUR REPORT "TOWARDS A NEW BRETTON WOODS" SUGGESTS,  
THAT HAS TO BE DEVELOPED THROUGH CONSULTATION.

OUR TEST MUST BE A PRACTICAL ONE -

WHAT WILL BE ACCEPTABLE TO THOSE WHO ARE LEAST CONVINCED  
OF THE NEED FOR AN EXAMINATION AT ALL?

THE FIRST POINT TO MAKE

IS THAT AN UNWIELDY CONFERENCE  
CALLED TOGETHER PREMATURELY  
WOULD NOT BE IN ANYONE'S INTERESTS.

OUR COMMONWEALTH REPORT STATES THE POSITION VERY CONCISELY,

I QUOTE, "THE INTERNATIONAL COMMUNITY  
SHOULD NOW THINK IN TERMS OF A CONFERENCE;  
BUT IT IS IMPORTANT TO STRESS

THAT IT IS A CONFERENCE

THAT WILL NEED THE MOST CAREFUL PREPARATION  
BOTH AS TO SUBSTANCE AND MODALITIES.

IT SHOULD BE SEEN AS THE CULMINATION OF A PROCESS  
RATHER THAN ITS INITIATION."

PROPER PREPARATION WILL BE THE KEY.

IN PLANNING THIS,

I BELIEVE IT WILL BE NECESSARY

TO AGREE ON SOME TYPE OF WEIGHTED VOTING SYSTEM  
ALONG THE LINES OF THE PROCEDURES

USED BY THE IMF'S INTERIM COMMITTEE

OR THE WORLD BANK'S EXECUTIVE BOARD.

FOR SMALL COUNTRIES LIKE NEW ZEALAND

THE ONE COUNTRY/ONE VOTE PROCEDURE

HAS CERTAIN IMMEDIATE ATTRACTIONS,

BUT GIVEN A CHOICE BETWEEN FORM AND SUBSTANCE,

I WOULD PREFER TO GO FOR SUBSTANCE.

THE FACT IS,

THAT ANY NEGOTIATING OR DISCUSSION PROCESS

WHICH DOES NOT REFLECT REALITIES

OF WORLD ECONOMIC AND POLITICAL POWER,

WILL NEVER BECOME MORE THAN A THEORETICAL POSSIBILITY -

A HARDY ANNUAL FOR DEBATE

IN OTHER INTERNATIONAL FORUMS.

I AM SURE THAT MY AUSTRALIAN COLLEAGUE AND I,  
AS REPRESENTATIVES OF TWO COUNTRIES  
WITH SIGNIFICANT INTERESTS  
IN THE EXPORT OF BEEF AND DAIRY PRODUCTS,  
LOOK FORWARD TO THAT SUNNY DAY  
WHEN WE CAN SIMPLY OUTVOTE THE UNITED STATES  
TWO TO ONE  
ON THEIR DAIRY AND BEEF IMPORT POLICIES

I AM NOT SURE THAT EITHER BOB HAWKE OR I  
WOULD BE WISE TO HOLD OUR BREATH  
IN ANTICIPATION OF THAT DAY.

THE SHAPE OF THE TABLE,  
THE PREPARATORY PROCESS,  
WILL BE VERY IMPORTANT IN BUILDING CONFIDENCE.

WHAT IS ON THE TABLE,  
THE ISSUES,  
WILL BE WHAT THE NEXT GENERATION  
WILL JUDGE US BY.

IN MY LETTER TO OUR CHAIRMAN,  
I HAVE SUGGESTED A CHECKLIST ON THESE ISSUES.

I WOULD LIKE TO COMMENT  
ON ONE OR TWO SALIENT POINTS.

MY FIRST POINT IS THAT AS A MATTER OF COMMONSENSE  
ANY EXAMINATION OF THE TRADE AND PAYMENTS SYSTEM  
CANNOT BE SOLELY CONCERNED WITH INTERNATIONAL LINKAGES.

MANY OF THE PROBLEMS  
THAT DEVELOPED OVER THE LAST TEN YEARS OR SO  
HAVE DOMESTIC ROOTS.

OUR ECONOMIC MANAGEMENT TOOLS  
TENDED TO HAVE AN INFLATIONARY BIAS TO THEM.

IRRESPECTIVE OF SOCIAL AND POLITICAL CONDITIONS  
MOST COUNTRIES FOUND IT VERY DIFFICULT  
TO ADJUST THEIR ECONOMIES  
TO SUDDEN AND UNFORESEEN CHANGES  
IN THE REAL PRICE OF OIL,  
TO SHIFTS IN KEY RATIOS  
SUCH AS THE RATIO OF REAL WAGES  
TO REAL INTEREST RATES.

THE POINT IS NOT TO DENY THE EXISTENCE OF EXTERNAL SHOCKS,  
BUT RATHER TO UNDERLINE THE IMPORTANCE  
OF SOUND DOMESTIC POLICIES.

THIS IS THE REASON  
YOU WILL SEE ON MY INDICATIVE CHECKLIST  
MATTERS SUCH AS MACRO-ECONOMIC POLICY CO-ORDINATION  
AND DOMESTIC ADJUSTMENT POLICIES.

HAVING POINTED TO THE IMPORTANCE OF DOMESTIC POLICIES  
WE SHOULD, I SUGGEST,  
BE VERY CAREFUL TO AVOID THAT OTHER CANARD  
WHICH IS THE MIRROR FACE  
OF DENYING THE IMPORTANCE OF DOMESTIC POLICIES.

I AM REFERRING TO THE PROPOSITION  
THAT IF WE ALL FOLLOWED SOUND DOMESTIC POLICIES,  
THE INTERNATIONAL ECONOMY WOULD LOOK AFTER ITSELF.

APART FROM THIS REPRESENTING POLITICAL NAIVETY OF THE HIGHEST ORDER,  
IT IS NONSENSE.

THERE MUST BE RULES OF THE GAMES  
TO GOVERN INTERNATIONAL ECONOMIC RELATIONS.

IN THE FIELD OF INTERNATIONAL TRADE, FOR EXAMPLE,  
IT TOOK VERY DETAILED AND EXPLICIT  
NEGOTIATIONS OVER INDUSTRIAL TARIFFS BY GOVERNMENTS  
TO SET UP THE GATT FRAMEWORK  
BEFORE THE INTERNATIONAL MARKET-PLACE  
COULD FUNCTION MORE EFFECTIVELY.

SIMILARLY,  
POST-WAR CURRENCY CONVERTIBILITY  
WAS ACHIEVED ONLY GRADUALLY  
AND AS A RESULT OF INTERNATIONAL NEGOTIATION.

I SUGGEST

WE WILL DEAL WITH THE MODERN-DAY PROBLEMS  
OF THE INTERDEPENDENT WORLD ECONOMY  
AGAIN ONLY THROUGH A VERY CONSCIOUS  
AND DELIBERATELY CO-ORDINATED INTERNATIONAL EFFORT.

THIS IS WHY I HAVE INCLUDED IN MY CHECKLIST  
SUBJECTS SUCH AS THE ROLE OF RESERVE CURRENCIES,  
INCLUDING THE FUTURE EVOLUTION OF SPECIAL DRAWING RIGHTS  
AND ALTERNATIVE EXCHANGE RATE REGIMES.

ONE OF THE CONSEQUENCES OF THE POLICY ADJUSTMENTS  
MADE BY INDUSTRIAL COUNTRIES OVER THE LAST DECADE  
HAS BEEN A MASSIVE DOWNTURN IN THE TERMS OF TRADE  
OF CERTAIN COMMODITY EXPORTERS.

IN NEW ZEALAND'S CASE

WE HAVE HAD TO FRAME OUR ECONOMIC POLICIES  
AGAINST THE BACKGROUND OF A 25 PER CENT DROP  
IN OUR TERMS OF TRADE  
AS WELL AS, OF COURSE, REDUCED ACCESS  
FOR SOME OF OUR MAJOR EXPORT COMMODITIES  
TO TRADITIONAL MARKETS.

BECAUSE NEW ZEALAND IS A RELATIVELY AFFLUENT COUNTRY,  
WE HAVE BEEN ABLE TO COPE,  
THOUGH NOT WITHOUT DIFFICULTY.

FOR OTHER COMMODITY EXPORTING COUNTRIES  
THAT SAME PERCENTAGE DECLINE IN THEIR TERMS OF TRADE  
REPRESENTS WHAT ECONOMISTS CALL  
AN "EXOGENOUS VARIABLE".

I CALL IT AN UTTER DISASTER.



IN THESE LESS AFFLUENT COUNTRIES,  
THE MARGIN FOR ACCEPTABLE ADJUSTMENT TO SUCH CHANGES  
SIMPLY DOES NOT EXIST.

IN NEW ZEALAND'S CASE,  
THE POLITICAL CONSEQUENCES SINCE THE MID 1970s  
HAVE BEEN NOTHING MORE THAN AN EROSION  
IN WHAT HAD BEEN A COMFORTABLE PARLIAMENTARY MAJORITY.

I CAN LIVE WITH THAT.

IN OTHER COUNTRIES,  
THAT SAME PROPORTIONATE DECLINE IN THEIR TERMS OF TRADE  
HAS CAUSED SUBSTANTIAL POLITICAL UPHEAVAL  
AND POSSIBLY COST EVEN ONE OR TWO OF THEM  
THEIR CONSTITUTIONS.

THIS IS WHY I HAVE ARGUED CONSISTENTLY  
THAT ECONOMIC INSTABILITY  
CAN LEAD TO POLITICAL INSTABILITY  
AND EVEN TO STRATEGIC INSTABILITY.

IT IS AGAINST THIS BACKGROUND  
THAT I INCLUDED IN MY CHECKLIST OF ISSUES  
THE FUTURE ROLE  
AND FINANCIAL REQUIREMENTS  
OF THE IMF AND ITS PROGRAMMES  
INCLUDING THE APPROPRIATENESS  
OF ITS CURRENT APPROACH  
TO CONDITIONALITY.

CONDITIONALITY MUST BE MADE TO FIT  
THE STRUCTURAL CURRENT ACCOUNT DIFFICULTIES  
SO MANY HEAVILY INDEBTED COUNTRIES FACE TODAY.

THE ADJUSTMENT PROGRAMMES  
MUST START FROM THE RECOGNITION  
THAT IT WILL TAKE YEARS  
TO WORK THROUGH THE BACKLOG OF PROBLEMS  
THAT HAVE BEEN BUILT UP.

IN SPITE OF THE FACT  
THAT WE LIVE IN WHAT HAS BEEN CALLED  
AN "AID-WEARY" WORLD,  
I RETAIN THE UNFASHIONABLE BELIEF  
THAT FOR MANY COUNTRIES,  
PARTICULARLY SMALL, ISOLATED ISLAND COUNTRIES  
WITH VERY LIMITED RESOURCES,  
THERE WILL BE A CONTINUING LONG-TERM REQUIREMENT  
FOR OFFICIAL DEVELOPMENT ASSISTANCE.

THERE ARE CERTAIN BASIC STATISTICAL FACTS  
TO BE TAKEN INTO ACCOUNT.

FOR EXAMPLE,

ONE OF OUR REPORTS ESTIMATES  
THAT OFFICIAL DEVELOPMENT ASSISTANCE  
FINANCES ABOUT TWO-THIRDS OF THE DEFICITS  
OF THE LOW INCOME COUNTRIES  
AND ABOUT ONE-QUARTER OF THEIR TOTAL INVESTMENT.

FOR THAT CATEGORY KNOWN AS THE LEAST DEVELOPED COUNTRIES,  
THE CONTRIBUTION MADE BY ODA

IS THROWN INTO EVEN SHARPER RELIEF:  
OFFICIAL DEVELOPMENT ASSISTANCE  
PROVIDES OVER THREE-QUARTERS OF THE INVESTMENT  
IN MANY OF THEM.

I BELIEVE THAT ANY COMPREHENSIVE EXAMINATION OF THE TRADING SYSTEM  
MUST KEEP A REASONABLY CLEAR DISTINCTION  
BETWEEN PRESERVING AN EFFICIENT INTERNATIONAL TRADING SYSTEM  
AND THE QUESTION OF RESOURCE TRANSFERS AS SUCH.

THE PRICE OF THAT, HOWEVER,  
IS A CLEAR REAFFIRMATION OF THE PLACE  
OF OFFICIAL DEVELOPMENT ASSISTANCE.

I BELIEVE IT IS ESSENTIAL  
TO FIND WAYS OF PUTTING AID ON A MORE ASSURED BASIS.

I HAVE SUGGESTED DISTRIBUTING SPECIAL DRAWING RIGHTS ON THE BASIS OF NEED  
AND THERE ARE OTHER POSSIBILITIES CANVASSED IN OUR REPORT  
"TOWARDS A NEW BRETTON WOODS".

FINALLY,  
MY CHECKLIST OBVIOUSLY INCLUDES  
DEBT AND PROTECTIONISM.

I HAVE LEFT THESE TO LAST  
NOT SIMPLY BECAUSE I BELIEVE THEM TO BE  
AMONG THE MOST WORRYING FEATURES OF THE WORLD ECONOMY,  
BUT ALSO BECAUSE THEY DEMONSTRATE MOST CLEARLY  
WHY IT IS SO DANGEROUS  
TO BELIEVE WE CAN RELY ON THE RECOVERY  
TO SOLVE ALL OUR PROBLEMS.

I AM NOT SURE WHETHER I COULD QUITE JOIN HELMUT SCHMIDT  
WHO RECENTLY DISMISSED HOPES OF A WORLD ECONOMIC RECOVERY  
AS "AN AMERICAN ILLUSION".

I SEE THE RECOVERY  
AS HAVING ESSENTIALLY STABILISED  
A VERY DANGEROUS CONTRACTION  
OF THE WORLD ECONOMY.

IN 1982 THE WORLD ECONOMY WENT BACKWARDS.

WORLD PRODUCTION DECLINED BY AN ESTIMATED 2 PER CENT  
AND THE VOLUME OF WORLD TRADE DECLINED BY 2.5 PER CENT.

HAD THIS CONTINUED INTO 1983,  
I BELIEVE IT WOULD HAVE PUT IMPOSSIBLE STRAINS  
ON WORLD ECONOMIC AND POLITICAL STABILITY.

THE RECOVERY CERTAIN DEVELOPED COUNTRIES ARE NOW EXPERIENCING  
IS MORE THAN AN ILLUSION

BUT IT HAS TO BE SEEN AGAINST THAT PERSPECTIVE.

IT HAS TURNED THE TIDE AGAINST FORCES OF CONTRACTION  
OF WORLD OUTPUT AND TRADE

UNPRECEDENTED IN OUR POST-WAR EXPERIENCE.

THIS WELCOME CYCLICAL RECOVERY

WILL NOT TACKLE THE UNDERLYING ROOTS OF PROTECTIONISM

SINCE CLEARLY THE GROWTH OF PROTECTIONISM

PREDATES THE RECESSION.

PROTECTIONISM,

WHICH IS BY NO MEANS CONFINED TO THE OECD COUNTRIES,

WILL PERSIST IN THE DEVELOPED WORLD

IF ONLY BECAUSE NO-ONE IS PREDICTING GROWTH RATES

WHICH WILL REDUCE THE ROUGHLY 35 MILLION UNEMPLOYED

IN THE OECD AREA AS A WHOLE.

THE RECOVERY WILL NOT DO MUCH TO ALLEVIATE THE DEBT BURDENS  
OF MANY DEVELOPING COUNTRIES.

THE COMMONWEALTH STUDY,

"TOWARDS A NEW BRETTON WOODS",

ESTIMATES THAT THERE ARE AS MANY AS 40 COUNTRIES

WHICH HAVE BEEN REPORTED

TO HAVE AGREED TO DEBT-RESCHEDULINGS

OR TO BE IN SUBSTANTIAL PAYMENT ARREARS.

IN THE TEN-MONTH PERIOD TO JUNE 1983,  
THE VALUE OF CROSS-BORDER DEBT  
BEING RENEGOTIATED WITH COMMERCIAL BANKS  
HAS BEEN CALCULATED  
AS BEING OVER 20 TIMES LARGER  
THAN IN ANY PREVIOUS YEAR.

WE GET DAILY REPORTS  
INDICATING THAT SOME OF THE MOST SERIOUSLY INDEBTED COUNTRIES  
ARE IN DEFAULT IN ALL BUT A FORMAL SENSE.

ALTHOUGH MANY OF THESE ISSUES WHICH I HAVE RAISED ARE HIGHLY TECHNICAL,  
THE DIFFICULTIES IN RESOLVING THEM  
ARE FUNDAMENTALLY POLITICAL.

AS HEADS OF GOVERNMENT,  
WE KNOW THAT POLITICAL WILL  
DOES NOT MATERIALISE FROM THIN AIR.

POLITICAL WILL HAS TO BE CREATED.

WHATEVER THE PROBLEM,  
THE PROCESS OF CREATING POLITICAL WILL  
IS MUCH THE SAME THE WORLD OVER.

YOU GET A MANAGEABLE NUMBER OF THE RIGHT PEOPLE TOGETHER.

YOU PUT BEFORE THEM THE RIGHT PROGRAMME FOR DISCUSSION.

YOU DRAW UP PROPOSALS THAT ADDRESS THE REAL PROBLEMS.

YOU THEN NEGOTIATE AN AGREEMENT  
WHICH EACH PARTICIPANT IN THOSE NEGOTIATIONS  
TAKES BACK TO HIS PEOPLE  
TO SEE WHETHER THIS IS WITHIN THE BOUNDS OF ACCEPTABILITY.

THIS IS WHAT HAPPENED IN 1944 AT BRETTON WOODS  
AND LATER AT HAVANA.

EACH COUNTRY THEN HAD TO ASK ITSELF -  
THIS IS PART OF A WORLD PROGRAMME  
AGREED BY THE WORLD COMMUNITY.

NOW ARE WE IN  
OR ARE WE OUT?

THE VAST MAJORITY OF THEN SOVEREIGN COUNTRIES  
DECIDED THEY WERE IN.

THE RULES AND INSTITUTIONS THAT GREW OUT OF THAT PROCESS  
UNDERWROTE AN UNPRECEDENTED PERIOD OF EXPANSION AND GROWTH.

I BELIEVE WE FACE COMPARABLE PROBLEMS TODAY  
THAT REQUIRE US TO DEVELOP,  
AS A CONSCIOUS ACT OF POLICY,  
THE MEANS TO GENERATE THE POLITICAL WILL REQUIRED  
TO TACKLE THOSE PROBLEMS.

WE NEED AN ACCEPTABLE PROCESS  
AND A SENSIBLE AGENDA.

TO ACHIEVE THAT WILL MEAN STEPPING A LITTLE OUTSIDE  
THE COMFORT OF ESTABLISHED GROUP POSITIONS.

THAT, I SUGGEST, IS THE PURPOSE  
OF COMMONWEALTH HEAD OF GOVERNMENT MEETINGS.

IN POLITICAL LIFE,

WHETHER ONE IS OPERATING IN THE DOMESTIC OR INTERNATIONAL ARENAS,  
THERE ARE RELATIVELY FEW OPPORTUNITIES  
TO SEIZE THE HIGH ROAD -  
TO POINT TO A WAY FORWARD.

THAT IS THE OPPORTUNITY WE HAVE  
OVER THE NEXT FEW DAYS.



HOPE WE CAN RISE TO THAT CHALLENGE,

NOT SIMPLY IN FINDING APPROPRIATE LANGUAGE

TO BE INCLUDED IN OUR COMMUNIQUE,

BUT IN IDENTIFYING WAYS TO CARRY FORWARD OUR VIEWS.

ONE WHICH I HAVE SUGGESTED

IS TO ESTABLISH A CORE GROUP OF HEADS OF GOVERNMENT,

WITH THE ASSISTANCE OF THE SECRETARY-GENERAL,

TO TAKE OUR VIEWS

INTO OTHER INTERNATIONAL MEETINGS AND FORUMS.

IT IS IMPORTANT

THAT THE CONSENSUS WE REACH HERE IN NEW DELHI

IS CARRIED INTO THE WIDER INTERNATIONAL COMMUNITY

TO PROVIDE THE PLATFORM FOR EARLY ACTION.

IF THE COMMONWEALTH CAN SPEAK WITH A CLEAR AND PERSUASIVE VOICE,  
A SENSIBLE PROGRAMME,  
AND A CLEAR VISION OF WHAT CAN BE ACHIEVED  
WE CAN POINT THE WAY.

I HAVE NO DOUBT  
THAT IF WE DECLINE TO RISE TO THE CHALLENGE  
THIS YEAR OR NEXT YEAR,  
WE WILL FIND OURSELVES RETURNING AGAIN AND AGAIN  
TO THIS UNDERLYING ISSUE  
UNTIL WE FINALLY REACH A CONSENSUS  
TO ESTABLISH AN ACCEPTABLE FRAMEWORK  
FOR CONDUCTING INTERNATIONAL ECONOMIC RELATIONS  
IN THE LATE 20TH CENTURY.