HGM (79) 4th Session

COMMONWEALTH HEADS OF GOVERNMENT MEETING LUSAKA, 1–7 AUGUST, 1979

RECORD of the Fourth Session held at Mulungushi Hall, Lusaka on Thursday, 2 August, 1979 at 2.45 p.m.

Present:

His Excellency Dr. K. D. Kaunda, President of Zambia (*in the Chair*)

The Right Hon. Malcolm Fraser, M P, Prime Minister of Australia

H E Mr. Ziaur Rahman, President of Bangladesh

The Hon. A. M. Mogwe, Minister of External Affairs, Botswana

The Right Hon. Joe Clark, Prime Minister of Canada

Mr. A. N. Johnson, Permanent Secretary, Ministry of Trade and Industry, Dominica

H E Sir Dawda Kairaba Jawara, President of The Gambia

The Hon. M. Bishop, Prime Minister of Grenada

The Hon. Shyam Nandan Mishra, Foreign Minister, India

H E Mr. Daniel T. Arap Moi, M P, President of Kenya

The Hon. C. D. Molapo, Minister for Foreign Affairs, Lesotho

The Hon. Tengku Ahmad Rithauddeen bin Tengku Ismail, Minister of Foreign Affairs, Malaysia

Dr. The Right Hon. Sir Seewoosagur Ramgoolam, Prime Minister of Mauritius

H E Major-General H. E. O. Adefope, Commissioner for External Affairs, Nigeria

The Hon. George Odlum, Deputy Prime Minister, St. Lucia

The Hon. Perry G. Christie, Minister of Health and National Insurance, Bahamas

The Hon. H. de B. Forde, M P, Attorney-General and Minister for External Affairs, Barbados

The Right Hon. Mrs. Margaret Thatcher, M P, Prime Minister of Britain

H E Mr. Spyros Kyprianou, President of Cyprus

The Right Hon. Ratu Sir Kamisese Mara, Prime Minister of Fiji

H E Mrs. Gloria Nikoi, Commissioner for Foreign Affairs, Ghana

The Hon. R. E. Jackson, Minister of Foreign Affairs, Guyana

The Hon. Michael Manley, Prime Minister of Jamaica

H E Mr. I. T. Tabai, President of Kiribati

The Hon. D. J. Matenje, M P, Minister of Education, Malawi

The Hon. Dr. Philip Muscat, M P, Minister of Education, Malta

Mr. B. V. Galvin, Permanent Head, Prime Minister's Department, New Zealand

The Right Hon. Michael T. Somare, C H, M P, Prime Minister of Papua New Guinea

H E Mr. F. A. Rene, President of Seychelles

H E Dr. S. T. Matturi, High Commissioner to the United Kingdom, Sierra Leone

The Right Hon. Peter Kenilorea Prime Minister of Solomon Islands

The Hon. Prince Nqaba, Minister for Commerce, Industry, Mines and Tourism, Swaziland

H R H Prince Tuipelehake, Prime Minister of Tonga

The Hon. Otema Allimadi, Minister of Foreign Affairs, Uganda

The Hon. Lee Kuan Yew, Prime Minister of Singapore

The Hon. R. Premadasa, Prime Minister of Sri Lanka

H E Mwalimu Julius Nyerere, President of Tanzania

H E Mr. Eustace Seignoret, High Commissioner to the United Kingdom, Trinidad and Tobago

The Hon. Vaovasamanaia Filipo, Minister for Finance, Western Samoa

H E Mr. Shridath S. Ramphal, *Secretary-General*

Also present:

AUSTRALIA

The Hon. Andrew Peacock
The Hon. R. V. Garland

BANGLADESH

The Hon. Prof. Shamsul Huq
Mr. Farooq Sobhan

BOTSWANA

Mr. L. J. M. J. Legwaila
Mr. L. Mothibatsela

CANADA

The Hon. Flora MacDonald
Mr. L. A. H. Smith

FIJI

Mr. J. Kotobalavu
H E Mr. S. Nandan

GHANA

H E Mrs. Gloria A. Nikoi
Mr. K. B. S. Simpson
Dr. I. K. Chinebuah

GUYANA

The Hon. Dr. Mohamed Shahabuddeen
Mr. C. Greenidge

JAMAICA

The Hon. Carlyle Dunkley

THE BAHAMAS

Mr. R. L. Wood
Mr. James Smith

BARBADOS

Mr. S. E. Emtage

BRITAIN

Sir John Hunt

CYPRUS

H E Mr. Nicos Rolandis
Mr. Andreas Christophides

THE GAMBIA

The Hon. L. K. Jabang
Mr. F. A. J. M'Boge

GRENADA

Mr. G. Louison
Miss F. Rapier

INDIA

Mr. J. S. Mehta
Mr. A. F. Couto

KENYA

The Hon. C. Njonjo
The Hon. Dr. M. Waiyaki

KIRIBATI

Mr. A. Baiteke
Mr. A. O. Davies

MALAWI

Mr. J. B. Mkandawire

MALTA

Dr. A. S. Trigona
Mr. E. A. Causon

NEW ZEALAND

Mr. H. C. Holden

PAPUA NEW GUINEA

Mr. Mekere Marauta
Miss Jean Kekedo

SEYCHELLES

Mr. D. J. Thomas
Mrs. E. Etienne

SOLOMON ISLANDS

Mr. F. Bugotu
Mr. F. Saemala

SWAZILAND

Mr. V. E. Sikhondze
Dr. E. V. Dlamini

TONGA

H R H Prince Tupouto'a

WESTERN SAMOA

H E Mr. M. I. Toma
Mr. A. L. Hutchison

LESOTHO

H E Mr. T. Thahane
Mrs. T. Kikine

MALAYSIA

H E Tan Sri Ishaka bin Haji Pateh Akhir
Mr. Ajit Singh

MAURITIUS

The Hon. R. Ghurburrun

NIGERIA

H E Ambassador S. U. Yolah
Mr. F. O. Emuwa

ST. LUCIA

Mr. Earl Huntley

SINGAPORE

The Hon. C. T. Goh
Mr. S. Dhanabalan

SRI LANKA

The Hon. Ranil Wickremasinghe
Mr. Bradman Weerakoon

TANZANIA

The Hon. Edwin Mtei
H E Mr. Daniel Mloka

UGANDA

Dr. Martin Aliker

ZAMBIA

The Hon. W. P. Nyirenda
The Hon. W. M. Chakulya

Secretariat:

Mr. C. J. Small
Mr. D. A. Anderson
Mr. M. Malhoutra
Mr. C. W. Sanger
Dr. B. Jalan
Dr. B. Persaud
Mr. G. M. Brownbill
Mr. M. L. O. Faber

CONTENTS

I. WORLD ECONOMIC SITUATION AND PROSPECTS

Dr. Kaunda suggested that the Meeting then turn to Item 3(*d*), World Economic Situation and Prospects. There were two documents relating to the item: the first a background paper prepared by the Secretariat, HGM (79) 11, and the second by the Government of Fiji on Energy, HGM (79) 16.

As in his welcome address of the previous day he drew attention to the serious economic problems facing the world and urged members in their consideration of the item to think of ways in which the Commonwealth might collectively work out a programme which might help the world economic system out of its difficulties. Calling on the Prime Minister of Australia to open the discussion, he paid tribute to his progressive approach to human problems.

Mr. Fraser, Australia, said he wished to address his remarks to the major economic problems that confronted them, and to raise some questions to which he believed the Meeting ought to address itself and to question whether in fact enough was being done to help the world economy break out of its present impasse. He had been impressed by Dr. Kaunda's theme at the Opening Ceremony, that the international situation called for vision, courage and greater co-operation than ever before. That was true in the political and strategic senses and it was also true in the economic sense. He believed that the remedies that appeared to be available and the problems to be faced in the last decades of the century were likely to be dominated by economic issues of a very severe kind. He believed the Commonwealth had an important role to play. It could create a climate of opinion. Its members were all members of other organisations. If there was a consensus of view within the Commonwealth that view could spread into other organisations. The Commonwealth could take action, as they did in relation to the Common Fund, to try and break a stalemate. The agreement at UNCTAD V on the Common Fund was partly due to such action. It was within the Commonwealth's capacity to devise bold, imaginative action and to generate the will and the vision that was necessary to meet the problems of the next decade.

Current assessments of the international outlook were certainly not bright. He had no real confidence that inflation was going to be substantially reduced in the major industrial countries over the next five years. Assessments that had been given for the more immediate future gave all cause to question what more should be done. There were sombre implications for the economic well-being of all and, if economic disarray continued or inflation grew—as was forecast in a number of important countries—that would lead to political uncertainty and to social instability. Against that kind of background, he believed that there was need for action, a sense of urgency, and of determination.

In his view there was a high degree of economic inter-dependence; the central issues that confronted them were all inter-related; it was not possible to solve one and leave the others untouched. There needed to be a greater recognition of North/South inter-dependence, and a greater acceptance and accommodation of the position of developing nations whose economic take-off and advance could be of direct benefit to industrial countries. He instanced the increased flow of trade between the newly industrialising countries of Asia and Australia.

The key to stimulating international trade was overcoming inflation. The linkages between inflation and the opportunities for greater trade were direct. The developed countries provided outlets for about 70 per cent of the developing countries' markets, and if they were economically stagnating then that access would be limited or reduced. Similarly, the growth in real output in the developed countries affected capital flows to the developing countries. Growth for developed and developing countries alike depended in a very real sense on overcoming inflation, and inflation as it was at present, undermined social and political cohesion within and between nations. Every country had to do what it could to fight inflation for itself, but he believed the major industrialised nations had an overriding responsibility and function, not only for themselves but for the rest of the world. The size of their economies and international trade was so great that their high inflation made it very difficult for other countries to reduce their inflation. He believed the economic summits arranged were recognition by the advanced industrialised nations of their responsibilities. The Commonwealth had a right and a capacity to call upon them to do more to overcome the ills of inflation. There had been marked differences between them in the success they had had but recent events gave cause to believe that greater weight would be given by some of them in the future to combating inflation.

Developed countries also had responsibilities to reduce their consumption of oil and to pursue alternative sources of energy. Energy, of course, was one of the reasons for the present rise in inflation. Oil producers also had a responsibility for continuity of supply, for price levels and to understand that what they did inter-acted upon themselves just as much as it did on others, and that difficulties in supply or in price could do grave and serious damage to many developing countries, who could find their whole programmes of advancement dislocated by balance of payments problems, which could be largely attributed to oil and oil alone.

There was also a very real link between inflation and protectionism. The inflation of the seventies had been responsible for new, sometimes quite imaginative forms of protectionism. A country with inflation found its goods became uncompetitive and to prevent unemployment rising excluded products of other countries. That approach had been followed by many countries over the last decade. But protectionism could only worsen the problem. It resulted in an inefficient allocation of resources and it jeopardised the opportunities of developing nations, and opportunities for growth in world trade. The results of the Multilateral Trade Negotiations, which had recently ended, were minimal, especially for commodities, but while they had been in progress they had offered some restraint against a greater growth in protectionism. That restraint had been removed and that could lead to further protectionist tendencies, particularly if inflation stayed high or rose. Actions to overcome those problems required a degree of courage and there would be difficulties but he had no doubt that the benefits would more than offset the costs.

Some progress had been made in the North/South dialogue. There had been agreement in relation to the Common Fund and Australia believed that, for certain commodities, that could be a significant advance. It showed the way in which developed and developing countries alike could co-operate and come to a common conclusion. He warned, however, that unless various programmes for commodities were negotiated and implemented, the Fund would be without meaning. One test to determine whether countries were serious about the Fund came in relation to the International Sugar Agreement, which was of interest to many Commonwealth members. The US Administration had said that it wanted and intended to join, but had Congressional difficulties. He did not think those difficulties were going to be reduced over the next 15 to 18 months. On the other hand, he had received an indication during bilateral trade negotiations with the EEC that if the US joined the Community would follow. Nevertheless to say that a nation was prepared to support the Common Fund and then not to participate in a commodity agreement when that nation had an important interest in the trade concerned reflected a degree of cynicism about the support for the Common Fund itself. So, despite the progress made further work was required to establish international commodity agreements.

While he had earlier indicated that the fight against inflation would be protracted, he felt that, even if that fight was won and the pre-1972/73 inflation levels were again established, it might well be that growth in world trade and in the national product of countries, would not be adequate to provide the markets

that were needed to reduce to acceptable levels high, and in many countries, rising unemployment. To draw out that thesis he traced some economic history since 1945. The last part of the forties to about 1970 had been a period of unprecedented economic growth, and there were many reasons for that: the depression before the war, the war itself, the pent-up consumer demand, the beginning of the great consumer society in the industrialised countries, the Marshall Plan, an imaginative and bold rebuilding of Europe, new technology—all of those had sustained an upsurge in growth, incomes, investment opportunities and development, and both the developed and developing countries had experienced the advantages of that and participated in it—benefiting to a greater or lesser degree. But the very upsurge, and success of the period, from the fifties to the seventies, led to changed conditions. By the early seventies, for various reasons, inflation was starting to take hold in a number of countries. The consumer boom tended to peter out—not because consumer demand had become satiated, although there were certainly changes in spending practices in the industrialised countries—but there were increased impediments to enterprise, investment, growth, development, and jobs.

Governments since the war had mostly pursued what might be called Keynesian economic policies, which partly encompassed the view that the government was entitled to spend more money than it could earn or take from the people, and could continue doing so indefinitely without unfortunate consequences. It was the application of those policies to the wrong circumstances that had led so much to the difficulties of the past decade and built inflation of a very serious and damaging kind into the world economies. It had also led to the view that, despite inflation, government could provide whatever was demanded. Possibly the competitive nature of democratic politics encouraged that expectation in ways that were not always entirely responsible. Nevertheless, economic growth was taken for granted. Governments believed they could pursue policies that were not conducive to economic growth and still have growth because they had known nothing else for two or three decades. That created unrealistic expectations of what governments could do—it put quite unrealistic demands on what economies could provide. The attitudes of trade unions in a number of countries had changed: they no longer moderated their demands in times of economic difficulty which built further inflation and difficulty into an economy. There was in some nations an attack on material possessions, as though other objectives were more important, which often ignored the fact that there was still massive poverty in many parts of the world. There began to be a concern for environmental factors which in itself was right but in many places was taken so far that it was a positive inhibition to development and investment. Other statutory road-blocks had been unreasonable trade practice legislation, unreasonable price controls and, in certain cases, national investment policies.

The point was that, even if inflation could be brought down to the traditional levels of the fifties and sixties, because of those other factors, investment decisions and development decisions would be inhibited. He did not believe that sufficient weight had been given to such constraints nor that adequate examination had been given to the very real difficulties in the way of full economic recovery. To illustrate the combined effect of those constraints and of high inflation, he pointed out that world trade had grown by only about 4 per cent a year since 1972/3. In the two decades before that it had grown at 8 per cent per annum. Moreover, it did not look like returning to those earlier growth levels with present policies and circumstances. Enterprise had been replaced by defensiveness. There was an attitude of protecting what there was instead of an innovative boldness to create new wealth. One only had to consider the $25 billion annual bill spent in Europe and North America on wage and export subsidies to realise what greater opportunities would have been afforded the world economy had those amounts been invested in productive enterprise instead of propping up unproductive ones.

The newly industrialising countries now faced new forms of protectionism and selective safeguards, which allowed for discrimination against a particular country. There were voluntary restraint agreements, which frequently had to be accepted as no alternative trading arrangement was offered. The Western system of trade and payment should not discriminate against the newly industrialised countries and those seeking to industrialise, particularly if they were more competitive. That was a defeatist attitude. Nevertheless he recognised the difficulties that outside competition could cause, especially loss of employment in particular industries, as had happened in Australia. Nevertheless Australian trade with the newly industrialising countries of the Western Pacific and of Asia, including Korea, had grown enormously since those countries had reached the stage of economic take-off. Their rate of economic growth was currently equivalent to that achieved by the developed countries in the forties and fifties. Therefore, older countries should welcome such growth which in turn created greater markets, and increased trade and wealth. Nothing would lead to greater bitterness than if the Western system of trade and payments was discriminatory. It would not be successful if its benefits were restricted to those who had already arrived.

He then posed several questions. Did the whole range of constraints need to be tackled in order to achieve the goals that all wanted? By what means could the vitality and dynamism of the world economic system which had been experienced in the late fifties and the sixties be restored? Could world resources be better allocated to provide that dynamism, which might mean merely allowing market forces to work instead of constraining them? What would happen if the vast amount of money expended by developed nations on wage and export subsidies were to go into profitable productive use? Was it possible to protect the environment and the interests of consumers without systematically frustrating investments and enterprise? How could the resources of developing nations be more effectively utilised, so as to increase growth on a sustainable basis and reduce the intolerable burden of poverty? What could be done to accommodate the newly industrialised countries—the one group of countries which was still achieving the growth rates of earlier decades? Although he did not know the answers he believed that they were essential questions, with which the Meeting should concern itself.

He did not think that a replica of the Marshall Plan was needed since the circumstances were different. However he commended the vision, will, and determination which had made it possible. There was a need now to address the difficulties that lay before them in the same way. If they could respond with imagination, with boldness, and a willingness to look beyond present conventional wisdom, answers might be found which presently seemed to be beyond them. He believed there would be advantage in the Commonwealth mobilising the expertise which resided in its developed and developing members to study appropriate ways of reducing constraints to economic growth, both old and new. That would be better than letting things go by default and remaining in the same state of economic difficulty. The Commonwealth might draw attention to those obstacles, it might even be able to do something concrete about them. He suggested that, if his colleagues found merit in the suggestion, it might be placed before the Officials' Meeting, the following day, and Australia would be willing to put forward some possible terms of reference.

Dr. Kaunda thanked Mr. Fraser for his analysis of the problems faced by almost all Heads of Government in their countries and for having put forward a number of suggestions on how the Commonwealth might collectively help the world economic system. Dr. Kaunda proposed that, as with Mr. Lee Kuan Yew's contribution, Mr. Fraser's remarks should also be reproduced and circulated so that they could be studied and discussed at the weekend, and mention made of the outcome in the final Communiqué.

Dr. Kaunda then suggested, in view of Mr. Manley's considerable contribution to the discussion on this subject in Kingston and London, he be invited to continue it.

Mr. Manley, Jamaica, joined Dr. Kaunda in thanking Mr. Fraser for a review of the situation that reflected his remarkable grasp of the world economic situation, and for providing them with a useful framework within which to try to pursue the questions that he had raised. While not attempting to answer the questions, he wished to push them further from the perspective of Jamaica's experience, which was similar to that of other developing member countries.

He was impressed by Mr. Fraser's proposal for a study, in an appropriate form, of the whole question of constraints to economic growth. He believed it would be useful and was interested to hear his colleagues' views on it. His own preliminary reaction was positive.

As he understood Mr. Fraser's presentation, for a variety of reasons the great economic engine of the industrialised countries had for the time being run out of steam. The presentation revolved around the question as to what were the constraints to growth and involved the powerful plea for courage, boldness, and imagination. That partly reflected Dr. Kaunda's own comments of the previous day. The developing countries could be described as being trapped in a situation where they were not building up a head of steam and in a sense both developed and developing seemed to be caught in a single dilemma. He saw two great dangers in that. There was the danger for the developed countries that the present situation with inflation, recession and a new crisis beginning to develop in the Western economies, would lead to a kind of paralysis of the political will and that that would reflect itself in increasing tendencies to protectionism, and an instinctive rejection of proposals for structural change in the world economy, and of some of the specifics of what was called the New International Economic Order, and that all that would possibly be associated with growing instability. On the developing countries' side, the danger, of course, was that they would retreat into an embittered frustration. They too would suffer from instability, which in some cases might lead to the danger of political repression when trying to cope with problems of unattainable expectations.

Those were the dangers which existed, but the fallacy should be avoided of thinking that somehow the answer to the problem was to be found in growth in the developed countries, as some sort of isolated and self-contained phenomenon. Obviously that growth was an important factor but he suggested that the answer to the problem really lay in how inter-dependence was understood. Inter-dependence could be seen merely as a sterile and neutral description of the fact that countries traded with each other and that in certain respects all economies were, tangentially at least, involved with each other. On the other hand, inter-dependence should be seen as a concept of mutual action and inter-reaction for mutual benefit which was conceived globally and, as far as possible, planned globally. Inter-dependence could only work if there was a broad balance and a broad movement of harmony to create a dynamic. He asked by what means could the process of inter-dependence in this dynamic sense be increased. Obviously it was extremely difficult as had been realised at the Heads of Government meetings in 1973, 1975 and 1977. Nevertheless he believed there were practical, specific things that could be done.

There had been a tremendous amount of analysis by economists and other experts of the factors that were inhibiting growth in the wider inter-dependent sense. He wished to look at some of the specifics. Mr. Fraser had spoken of the Marshall Plan as reflecting a tremendous act of political imagination, but warned against attempting to duplicate acts of imagination that were relevant in one situation, urging inspiration from the act of courage rather than the specifics through which it expressed itself. Overseas development assistance was likewise of tremendous importance and was a critical element in the whole process of the transfer of resources, but it would be dangerous to believe that some great single increase in overseas development assistance, which might be called a latter-day Marshall Plan, held the solution to the world's economic problems. It could help and it was important, but it might not be politically possible at the present time. Even if it were possible, there would be a great danger of confusing the two situations, *i.e.* what was needed for Europe under the Marshall Plan and what was currently needed to improve the dynamics of inter-dependence. Europe possessed a powerful economic machine and had installed production capacity. What had been really required was capital. The present situation was far more complex and had to be dealt with by a far wider-ranging variety of mechanisms.

In this regard he mentioned the New International Economic Order. Although a controversial title, a phrase was needed to express the urging of two thirds of mankind's attention to structural problems in world economic activity. That perhaps was as good or as bad a phrase as any. Behind the phrase there was surely a set of specific elements that were a challenge to political will and courage. Mr. Fraser had called for imagination and boldness. The current situation was one in which the developed countries had unused capacity, unemployment, inflation and other problems, and the developing countries had what might be called the potential to create increased capacity. The question was how to release productivity and the potential for productive investment. The so-called South had part of the means of restoring unused capacity for the so-called North. Both factors were mutually reinforcing and could give rise to the necessary linkages through trade and investment. For instance, the trade to which Mr. Fraser had referred was heavily in decline at the moment.

Mr. Manley indicated that he would first like to pick out one or two of the specifics and then examine what he considered to be some of the political problems involved. Were those specifics really as difficult as was being suggested? Mr. Fraser had spoken of the Common Fund. Half of the concept of the Common Fund had been created so something had happened. That was an achievement. But, as Mr. Fraser had rightly said, if there was insufficient political will, to say nothing of plain common sense, to create the commodity agreements, then the Common Fund would be a sham. Was it more difficult to create commodity agreements than to have got as far as agreeing on the basic concept? He did not think so; it was a matter of will. There was, in addition, another important consideration; even if the commodity agreements were established, the Common Fund would be handicapped because no compensatory financing mechanism had yet been created. Nor had the international community yet begun to address the problem of stability in commodity trading or compensating countries for loss of export earnings. When the balance of payments situation created an incapacity to finance, a brake on growth was imposed. That had been one of the practical difficulties to which Mr. Fraser had drawn attention. He wondered whether it was really beyond the international community to deal with the compensatory financing mechanisms. A start had in fact already been made in the Lomé Convention. Thus, one group had shown that it had the capacity to do something along those lines. It was not necessarily vital that compensatory financing for the maintenance of export earnings should be attached to the Common Fund. It could, for instance, be attached to the IMF. Such matters of detail could be ironed out. What was important was the fact that it was necessary and in its absence an obstacle to inter-dependent growth remained.

He then asked whether the problems relating to financial institutions were as intimidating as was being suggested. There had been a lot of discussion recently on the International Monetary Fund. Obviously it played a tremendously important part in attempting to release one of the brakes on development and trade which naturally flowed from balance of payments difficulties. There had been much talk about IMF conditionality. As many people knew, Jamaica had

had extensive experience of the IMF. It had found IMF personnel to be hard-working, sincere, dedicated international public servants. Inevitably, there were constraints under which they had to work. The problem which he felt was not insurmountable, was that the IMF was originally created to deal with developed economies. In looking at problems of adjustment in developed economies, it had become the custom to work on the basis of the assumption that a developed economy had a high degree of mobility in its productive factors, and it had therefore only to apply short term demand management for the country to produce or export its way out of a particular problem. That assumption was perfectly sound in the context in which it had been developed. In a developing country it would not always work that way because very often the problem for developing countries was the much greater problem of creating productive factors rather than merely to stimulate factors already in place. Therefore, in dealing with a developing country the IMF was bound by its traditions and rules to try to impose very sudden processes of adjustment. They created tremendous political strain, but that had to be faced. The important question was whether or not the response which was sought was actually achieved, since in some cases an economy could not respond quickly because of the problem of the productive factor.

Another problem, and one which had been quite a painful experience for Jamaica, arose when the IMF imposed very harsh conditions for rapid adjustment, all of them consistent with demand management, but then did not have the resources, and could not provide adequate foreign exchange to take advantage of the process of adjustment. An examination of IMF resources revealed that, some years ago, those resources were based on 10 per cent of world trade. Since then they had declined to only 5 per cent of world trade.

The problem was therefore both one of misconceived conditionality and of inadequate resources. Those were surely matters that could be dealt with if properly analysed. It seemed that in the circumstances greater developing country participation in the decision-making process of the IMF was required in order to ensure greater consonance of policy with regard to his kind of country. The IMF would benefit if it could acquire more experts with experience of the special problems of developing country economies. All developing countries would benefit enormously if more funds were available for the kind of support he had referred to earlier.

He then turned to the difficult question—which Mr. Fraser had spoken of with great clarity—of the international division of labour and the problem of a retreat into protectionism when there was a threat to a comparatively inefficient industry. All experts would say that the answer was to let the natural forces of the international division of labour play their part and to let the developing country have the opportunity to take on the lower form of production which it could do at a lower cost and more efficiently. Resources would thus be transferred to higher forms of industry and out of the resultant increase of activity all would benefit despite the temporary dislocation involved. He offered two comments in that context. The first was that if there was a shift from the politics of fear to the politics of boldness, as described by Mr. Fraser, it must be possible for developed countries to devise adjustment strategies that could, for instance, assist a move from textiles that were becoming inefficient, to electronics, that were more logical, thereby opening the way for a medium-stage developing country to take over that area of production.

A second thought was that people in developed countries often felt that they were suddenly being asked to bear the great burden of world adjustment, and that that was of course politically difficult. He wondered if people could not be led to see if the step that promoted the international division of labour could be taken, one of the results was an increase in the stock of countries that could help carry the adjustment process. Already it was noticeable that as developing countries began to amass surpluses, and more technology, they began to be conduits of technological assistance and sometimes even financial assistance. The bolder approach could widen the group of countries that could assist the process.

The last of the specific matters that he wished to mention was the question of energy, not a discussion of the price of oil but, rather, the fact that oil was not going to last for ever, indeed in historical terms, that it was nearly at an end. It was common sense that oil prices would be driven up as long as the supply/demand situation remained what it was. He was sure that that had been exhaustively discussed at Tokyo and that everybody was looking forward to hearing Mrs. Thatcher on that subject shortly. It seemed to him that the world—not just the Group B countries—badly needed an energy policy, and the means to mount a rational attack upon the energy problem as a whole. He emphasised that this did not imply an attack on OPEC or an attempt to lower oil prices. Instead, it would address the fact that the oil was not going to last for ever, and that the quicker alternative sources of oil were developed the longer the oil would last for those who were its beneficiaries at present. They would thus have the opportunity to develop their own economies. The important process of replacing oil as the basic source of energy and enabling it to be used in downstream petro-chemical industries could also be pursued. The international community should collectively face the fact that production was not just a matter of capital, technology and people and land but also of energy which was now a major factor of production that had to be addressed in terms of what it cost and whether it was going to last. He wondered if the time had not come to set up an international energy institute charged with planning the search for alternative sources, not simply in the context of developed countries but in a world setting, recognising that this would be a crucial element in the achievement of inter-dependent growth with mutual benefits. He asked member countries to consider, as members of other organisations, the question of an international energy institute; how it might be structured, whether it should operate under the aegis of the UN, and perhaps they could use the influence of the Commonwealth in pressing the idea forward.

He emphasised that he had tried to pick out a few examples only of the issues that he thought could be dealt with. There were many others. The accumulated wisdom resulting from technical work and economic studies was that there was a lot more that could be done, that had to be done.

Turning to the political problems Mr. Manley suggested that they too could benefit from careful analysis of the factors that were inhibiting forward movement. He identified five important factors apart from the question of political will. Firstly there was the question of how to negotiate specific changes like the Common Fund, the commodity agreements, or changes in the IMF. That was obviously very difficult, with about 150 nations each with its own particular conceptions and level of development. The second question was who would negotiate. The Secretary-General had emphasised that point in his opening remarks the day before. He referred his colleagues back to what the Secretary-General had said. Thirdly, there was the problem of a comparative lack of attention to international economic negotiation at the top of the political decision-making process. Fourthly, there was little effective caucusing as yet within the various groups. That applied equally to the so-called Third World, where much more needed to be done in the development of expertise and its own studies, in order to develop realistic positions, carefully prepared. The final question was who had the will and would take the time and trouble to educate public opinion, particularly in plural democracies. He recalled that at Runaway Bay those on the developing country side were very struck by the descriptions by people like Helmut Schmidt and Norderling of Norway of the sheer political problem of a textile factory which had to be subsidised. Could one look at the wives and families and allow it to go? Such situations were difficult but adjustment mechanisms could be worked out and carefully explained. That was not necesarily more

difficult than continuing to live with the deepening crisis, whose only virtue was if it were to be used as an excuse for inactivity. That could be a benefit but a rather short-lived one.

It still seemed that the UN was the best, if not the only, forum in which those objectives could be achieved. The CIEC in Paris had been a useful attempt but in the end had failed because it did not involve everybody in seeking decisions. The UN had to be used therefore and if it was to be effective a number of factors had to be considered. First, the best people had to be sent there, if major global economic adjustments were to be discussed. They also needed to be sent with a measure of authority. He did not believe that economic issues were given anything like the attention that the Security Council received in dealing with a political issue, where the highest concentration of the capacity for decision was brought to bear. Politicians needed to become political economists who attached equal importance to economic issues. If they could be placed higher on the agenda of the political decision-making process by making a connection in the mind between the crisis which Mr. Fraser had described and the mechanisms that offered a release from it and if they could be treated with a sufficient degree of urgency, a tremendous amount could be achieved. It was clear from the work the experts had done that that was not simply a question of rhetoric. It was therefore very important that the process of caucusing was developed. He drew attention to the vast experience of Don Mills, Jamaica's Permanent Representative at the UN, of negotiations at those levels and noted that the Third World did attempt a certain amount of caucusing and invested a certain amount of authority on the people who spoke on its behalf whereas the developed countries, as he understood it, had a very bad record. When international economic issues came up for discussion they did not caucus. There was no feeling that any attempt to begin to work out common positions was being made. He added however that the circumstances were slightly different in the case of the Common Fund. Nothing would move unless everybody agreed.

As a last thought, he wondered whether the Commonwealth could assist by assembling a broadly representative group to study the kinds of political and diplomatic initiatives needed to deal with the specific problems in an orderly and systematic way; to apply minds collectively and through representatives to the question of how the political and diplomatic process could be facilitated. The group would consider recommendation of a programme of diplomatic action. Then representatives of the Third World and OPEC could talk with their organisations and developed countries amongst themselves. It was possible that careful analysis of the political process could help to improve its capacity to deal with the issues involved.

In concluding, Mr. Manley emphasised that he had deliberately avoided talking about obvious problems of poverty, of who suffered most when things did not happen. If the Commonwealth did not share a humanist concern and understand the issues of equity and international morality then members would be wasting their time. That was why he had concentrated on the question of trying to open up the examination of specific issues. Could not the Commonwealth achieve a collective leadership involving the kind of courage which Mr. Fraser had spoken of as an example to the rest of the world? If it could not, then who could? He remained an incurable optimist in his faith that they were the body that could give that leadership.

Mr. Rahman, Bangladesh, told the Meeting that what he had to say was a continuation of what he had said the previous day about food security. Everybody knew that about 90 per cent of the people of the Commonwealth lived in developing countries and 80 per cent of the world's absolute poor lived in the Commonwealth. The question of adequate food security system was thus of paramount importance. With favourable weather conditions the average production figure of food grains in developing countries was only about 3 per cent, which was below the World Food Conference minimum target of 4 per cent. Performance had been worse still in the food priority countries and the situation remained critical in many parts of Asia and some parts of Africa. Chronic malnutrition continued to be the lot of about one quarter of the population of the developing world. The main problem in the area of international food policy continued to be an unsatisfactory system of world food security and inadequate external financial flows to meet production targets. He hoped that Heads of Government would endorse the report of the Advisory Group on Food Production and Rural Development in the Commonwealth and the Secretary-General's proposal to convene a ministerial meeting on food production and rural development. However, before such a meeting he proposed that the Secretariat should prepare a comprehensive study on the need, objective and institutional arrangements for a food security system which should, *inter alia*, include the following aspects: special financing facilities to meet large emergency food import costs; arrangements for emergency food loans in kind; international arrangements for enhanced stocking of food grains, particularly in food deficit countries; and ways and means of increasing food production, particularly in food deficit countries.

He noted that the Commonwealth included large food exporting nations as well as food importing nations, most of which were among the most seriously affected and the least developed groups of countries. In order to improve the food security situation within the Commonwealth a mechanism should be developed whereby the surplus countries could come to the aid of those nations needing food aid. An internationally held stockpile could be set up to be drawn on in time of need, with provisions for part or full payment, except in the case of LDCs. It could be built up by food surplus countries setting aside a proportion of their surplus in keeping with the commitments under the Food Aid Convention or the International Undertaking on World Food Security. Countries other than LDCs could also make token contributions. Simultaneously, a vigorous programme should be launched to provide incentives and assistance to the developing countries to accelerate their agricultural development and move speedily towards the goal of self sufficiency in food production.

In concluding he stressed the vital importance to a majority of member countries of a food security system and recommended that the subject be referred to the Committee of the Whole for study. He also asked that the recommendations of the Committee be included in the Communiqué.

The Meeting agreed to refer the matter to the Committee of the Whole.

Mrs. Thatcher, Britain, said that Mr. Fraser and Mr. Manley had dealt comprehensively with the subject. The two points which she wished to pick up were particularly relevant to the discussions at the Tokyo summit and what took place there might assist the deliberations to be carried a little further forward. The Tokyo summit, looking at the economic position of the world as a whole in the post war period found that approximately each quarter of a century the nature of the problem changed. In the immediate post-war period most countries were concentrating on expansion—which came to be called growth—in order to give their people a higher standard of living and how to get rid of unemployment.

Growth policies were so successful that the belief arose that it would automatically go on for ever and more and more people would come to enjoy the standard of living which some had taken for granted. There was an enormous potential for growth around the world as a whole and it was assumed that that could continue. Then, all of a sudden, in the early 1970s, the problem changed. The very success of the growth policy in the Western countries where unemployment had not really been a problem, brought those countries up against the other constraints to which Mr. Manley had referred. There were really two constraints which began to appear, even before the arrival of the oil crisis. In the US a

number of very distinguished people, having analysed oil and coal reserves, stated that there would soon be a shortage of energy. No one took the slightest bit of notice because everyone had become accustomed to cheap oil and there was coal and gas in plenty. By that time also, or a little later, the other constraint—inflation—had appeared. Inflation had not in fact been a serious problem in the post-war period. It had been about 3 per cent per annum but that was not serious compared with the problems that countries had had to tackle since. The very success of the growth policy had led people to expect, as their right, that they could have an automatically rising standard of living regardless of whether it was earned or not. Governments, unable to fulfil their promises, started to print money and inflation was the result. Then the oil crisis burst upon the world and she wished to say a word about that.

Economic or social policies tended to be talked about as if they were something totally removed from politics or human nature. The oil crisis had caused enormous economic problems which was another way of saying that they caused human problems. The source of that oil crisis and the more recent one was political. That should never be forgotten. Events which came suddenly and stopped all plans were events which had a political cause. The cause of the oil crisis was of course the Middle Eastern problem, the Yom Kippur war, which led to a fourfold increase in the price of oil.

The realisation that there would be an energy shortage should, of course, have come earlier. Those two constraints, energy and inflation, suddenly produced a new pattern of problems. It was realised that growth would not automatically go on unless those problems were dealt with. It had given the Western world problems but the less well developed countries even greater problems. An enormous increase in the price of oil in the West had meant that there was less money to go to the less well developed countries and not such big markets for the goods which they were beginning to produce. They were therefore doubly hard hit. So instead of focusing attention on expansion and combating unemployment governments were now having to look at two other different problems, energy limitation and inflation.

Turning first to energy Mrs. Thatcher said that countries were using a lot of their supplies of oil, coal and gas simply for fuel. They ought to be conserved for use *e.g.* as chemical feedstock for the plastics industry; as a source of much more than calories with which to run industries. If they were used up too quickly merely as fuels there would eventually be shortages of chemical feedstock.

The first oil crisis in 1973/74 had resulted in a four to fivefold increase in the price of oil. Yet the financial mechanisms of the world had dealt with that problem extraordinarily well. A lot of surplus money, not backed by production, entered the international system. Some of it caused inflation but some of it was recycled back. Some—but not enough—found its way to the developing countries and some to the developed countries. On the whole, the banking mechanisms had taken care of the problem but inflation had taken the strain. The way in which the world rode that oil storm made it very much less able to ride the new one which had come. The fact was that, politically, twice in a decade the world had become totally vulnerable to a shortage of oil supplies caused by political problems. The second crisis had produced about a 50 per cent increase in the price of oil. That had been almost as devastating as the earlier fourfold increase because it had come on top of it and because it had reduced standards of living. There was therefore both a political problem and an economic problem: vulnerability to the oil producing countries.

What was to be done about it in the short term and in the long term? Countries would not be able to go on expanding unless they could solve the problem. She and her colleagues had looked at it in Tokyo and decided that the first thing to be done was to bring demand and supply into balance. The shortage was only about 5 per cent but a 5 per cent shortage of anything caused the price to rocket. All the Tokyo countries had decided to do everything possible to depress their demand so they had agreed to restrict their imports of oil, and of course the chief mechanism for restricting demand for anything was the price mechanism. That undoubtedly was the main mechanism that had to be used. Conservation and a switch to other sources of energy—to coal and to gas—were also being used.

In the meantime, while they were sitting in the Tokyo conference the price of oil had risen again. Because they were conscious of their vulnerability in the longer term, they resolved to look to alternative, renewable sources of energy because, as Mr. Manley had said, as the price went up more expensive oil was brought into production, and that should not be wasted. The answer therefore was to seek other sources of energy. People argued that energy could be secured from the sun, the wind, the tides and from the earth in the form of geothermal energy. So it could, but not on the scale required to keep existing industries going or to improve industrial capacity in the less developed world. They had reached the conclusion that the only answer in time was the development of nuclear energy on a much larger scale than earlier contemplated. That, of course, produced problems among their peoples, many of whom were very frightened of nuclear energy, even though as she had sometimes told her own people, not one single life had been lost because of the production of electricity from nuclear energy whilst many lives had been lost in winning coal, in gas explosions and in oil fires. Some said that the sun and wind were God-given and so should be preferred but as uranium also was a natural resource it too should be exploited.

There were therefore two conclusions. The first was that Western countries' demand for oil had to be depressed as a means of keeping the price from rising faster. Secondly, in the longer term, attempts had to be made to establish alternative sources of energy. Mr. Manley had suggested that that be tried through an international agency. For a lot of OECD countries there was the International Energy Agency which already did a good deal of work in the energy field. Perhaps it was possible to build on that.

The second problem was inflation. It was possible to look for many ways around that problem, but the reality was that there would be no inflation if governments did not promise their people more than they were prepared to produce by work. If, in fact, more money was printed than was backed by the world's production, inflation would result. No financial mechanism could obviate that truth. To some extent politicians were the people who tended to produce inflation because they tended to give people the impression that there was an easy option, a way round the problem. The industrialised countries had a special responsibility here and Britain was determined to pursue orthodox financial policies to bring its money back on a sound basis. If more money was printed the system would give rise to increased prices.

How did the two problems interact elsewhere? The last time there had been a rapid increase in the price of oil there had been a reaction against any prospect of a fall in standards of living. People did not want to make do with less wages. In fact a combination of spare money in the international system and governments printing money caused inflation to become an international phenomenon as well as a national one. At Tokyo it had been decided not to do that again. Instead the leaders discussed ways of educating people to the reality that a colossal increase in prices in one commodity meant less to spend on others and the only way out of that was to create more wealth and start expansion in another direction. They had resolved to tackle the energy problem both in the short and the longer term and in ways that would not increase inflation.

In conclusion Mrs. Thatcher said there was a tendency to begin speeches by saying that the outlook for growth, for inflation and for unemployment was not

good. But it was not as bad as some of the problems that had had to be faced in the inter-war period. Technology had brought all sorts of things within grasp that had never even been thought of before, given a free economy in which to work. By way of illustration she recalled her recent visit to Hong Kong where over the past 30 years 4 million additional people, mostly refugees, had been taken in and housed, without any outside assistance. Jobs had been created by their own ingenuity and that had created some highly sophisticated products for sale in the West. That had happened because they had run a system which allowed the human spirit and talent to be used.

She urged her colleagues not to get depressed about growth. The capacity for growth could be achieved in two ways: through small people having ideas and starting up business on their own and through big industries being very efficient and using better technology more economically. One of her colleagues had said that most problems were man-made. They were, and it was within the human capacity to find solutions. But that could not be done by finance mechanisms. The task was to consider, realistically, the way to increase wealth which was created by someone's ingenuity, someone's hard work and capital. The Western world and the less developed world needed each other. When economies could be returned to growth a higher standard of living resulted but out of the surplus earned people started to invest overseas and she personally was very anxious that they did so. Britain had recently relaxed its exchange controls to encourage companies to invest overseas. That was good for Britain in the long run, but she wished to say to those who were wanting investment to remember that if some companies were suddenly nationalised then that destroyed the confidence of investors. When growth started again, there would be available surpluses for investment and for aid programmes. Things were difficult, but it was the task of politicians to try to solve the problems. She had faith in the human spirit and human ingenuity and in the strategies of a free economy: they should be given the opportunity to work. Government's job was to regulate and to smooth out some of the peaks and troughs that would otherwise occur, and to legislate in such matters as safety, health, hours of work, etc. She was not pessimistic. By using human ingenuity, and by following sound financial policies, it was possible to achieve expansion of the type envisaged in Tokyo.

Dr. Kaunda remarked that one colleague considered that the job of Prime Minister was not enough and had appointed himself as Minister of Finance as well. He was also the current Chairman of the Board of Governors of the Bank and the Fund. He invited the Prime Minister of New Zealand to speak.

Mr. Muldoon, New Zealand, said that as Minister of Finance he was unable to take an optimistic view of the world economic situation although he had enjoyed very much the speech of the Prime Minister of Britain. He commended the paper by the Secretariat which provided a good analysis of a very difficult situation, and the paper by Fiji which was a fascinating case-study of the energy problem. As he had predicted in London in 1977, in the past two years the rich had got richer and the poor poorer. As he had also said in London, there were still nations who literally could not afford to borrow because they could not service the debt. It was not sufficient for the wealthier, industrialised nations to say to those countries, " Well, I am sorry—our policies have increased your deficit but we will lend you the money to cover your deficits ". That was not a solution; it would result in further serious debt servicing problems.

Returning to the Secretariat paper he pointed out that in 1979 the industrialised countries as a group would experience a modest, combined deficit of US$2 billion while the non-oil producing developing countries would have a record deficit of $40 billion or more. He believed it would be more. Those figures revealed the heart of the problem. The major economic problem that confronted the world and was responsible for the dismal prospect of a spreading recession and continuing high rates of inflation, was the accelerating price of oil. Any attempt to lift living standards, to stabilise commodity prices, or to transfer resources from the developed to the developing countries could be negated by the OPEC countries simply adding another dollar to the price of a barrel of oil. The major consuming countries spoke of a deficit of supplies against demands but overlooked the fact that it was not a matter of deducting 5 per cent from what the usage would have been at the end of 1979; it was a matter of deducting 5 per cent from what the usage was in 1978. They were cutting back on their increase but they were not cutting back on their basic usage as of last year.

Economics was about people, not, as the academics would say, money, wealth and the transfer thereof, and that was frequently overlooked in the political considerations of the wealthy countries. The Arusha Declaration had rightly placed great emphasis on the need for the transfer of resources to developing countries. There were many ways of achieving that. He hoped that when the Fund and Bank had their annual meeting in Belgrade they would approve the proposal to increase the Bank's capital by $40 billion, thereby doubling it. He agreed with Mr. Manley's remarks about IMF resources and conditionality. It made no sense for the Fund to advance resources to a country while forcing that country to implement policies that were damaging to its economy and which increased political instability. That was a point that the Fund must take care of. He was confident that Monsieur de Larosière, Managing Director of the IMF, was aware of those facts.

Mr. Manley had referred to the political decision-making process and the difficulties attaching to it. He suggested that one way to get better political decision-making was to take a little more heed of the views of Ministers of Finance. He followed the advice of his implicitly!

Oil prices were going up not because of market forces but as the result of the policy of the OPEC countries. He believed the market price of oil would double in a period of about 12 months from 12 dollars fifty cents to 25 dollars or more. It was important to bear in mind that the price of oil actually went down in real terms between 1974 and 1979 after the first increase. Although the world had managed to handle that first crisis it was not in a position to handle the current crisis because of the damage that had been done. It was comforting to talk about recycling OPEC country surpluses but that involved some countries substantially increasing their foreign debt. He wondered for how long the world financial system could absorb such strains. It would not be long before the private sector banking system ran into serious difficulties in attempting to recycle those surpluses.

New Zealand was a major exporter of dairy products, but the increase in his country's bill for imported oil in the current year would absorb the entire annual export earnings of the New Zealand dairy industry. New Zealand was a relatively affluent country; he shuddered to think of the effect of oil price increases on some of the countries represented around the table.

Other issues, apart from oil, could not be ignored. After a very long period of negotiation, GATT/MTN had been a total disappointment. Some small gains had been made but they were derisory compared with what had been hoped for in the Tokyo Round of discussions. After masses of meetings, mountains of paper, millions of dollars, the result had been total disappointment. The disappointment had been shared by most developing countries, who had gained very little from the lengthy exercise. The developing countries were being encouraged by developed countries to develop their industries, and were offered money to do so, but the developed countries did not want to be asked to take the products. Increased economic pressure on the more developed countries would result in a strengthening of such attitudes.

There had been some progress, as Mr. Fraser had mentioned, but there had not been enough. When he went to the OECD in June he made it clear that he did not see how world trade could continue to operate on two sets of rules, one for industrial products and another for agricultural products as it did at present. Agricultural protectionism was practised by almost all industrial countries to the detriment of their own economies, to the disadvantage of their consumers and to the frustration of internationally efficient producers such as New Zealand and the producers of tropical agricultural products. He sympathised with those developing countries which produced commodities such as sugar and found their markets restricted by inefficient beet sugar production in the industrial nations. He was very conscious that many developing countries required not aid, but permission to trade.

He agreed with Mr. Manley on the necessity for developed countries to phase out inefficient industries. New Zealand had commenced a programme, necessarily long term, to do that, fortunately with some agreement from the New Zealand Manufacturers' Federation who were sufficiently enlightened either to see the writing on the wall or to recognise the economic realism of what his Government was proposing to do. New Zealand had tried to help her South Pacific island neighbours with the Pacific Islands Industrial Development Scheme, under which New Zealand provided financial assistance for her manufacturers to establish joint ventures in the island countries and endeavoured to make provision for special access to New Zealand for the resulting products. He commended that scheme as a means of giving opportunity to people who otherwise were in a hopeless position, with no means of employment in some of the poorer countries.

Another example was the decision by the South Pacific Forum in July to commence negotiations in September for a comprehensive non-reciprocal trade agreement in favour of the Forum island countries. That again could be done on a regional basis in other parts of the world. The agreement was likely to provide duty-free, unrestricted access to the markets of Australia and New Zealand for a wide range of products. He thought those schemes could operate better on a regional basis.

Unless effective energy policies were implemented on a world wide scale, he believed that the developing countries would watch despairingly as their balance of payments were undermined by an ever rising bill for imported oil. He reiterated his belief that oil prices would double in a period of about a year, and warned that the increase in prices would ultimately destroy the oil producers. It would destroy their investments, and their ability to invest. It would destroy political stability in countries around the world. It would destroy the economic stability of the oil producers' markets and thus eventually destroy them. New Zealand was potentially an energy-rich country and was in the process of developing alternative sources of energy. He and his colleagues were watching with very great anxiety the impact of the new increase in oil prices on the economies of the world. He believed that the Arab countries had a genuine feeling for the Third World. If that was so, then they must stop the moves by the less rational leaders among the oil producers which would damage the developing countries more than any others, because they could least afford to bear it.

The question of inflation had been dealt with in the debate. He did not entirely accept Mr. Fraser's forecast that very high levels of inflation would continue for the next five years since it was not possible to forecast so far ahead. But there were two things he believed would determine whether or not inflation could be successfully tackled. One was the price of oil and the related issue of energy policy. The other, he suggested, was the American Administration. Unless the most powerful economy in the world was governed by sound economic policies, it would be very difficult for any other group of countries to do what was necessary. It was a question of political will which he found lacking in too many of the wealthy countries of the world. He thought there was a bit of political will in Britain at present, but it was a bad time to be in government, particularly if one was subject to the whims of the electorate.

He did not consider that the International Energy Agency was a successful energy institute. It was capable of being successful but its record was not promising.

The late Norman Kirk, a great New Zealand parliamentarian, and his political opponent when he was Prime Minister, used to speak of "paralysis by analysis". GATT/MTN was a prime example of such paralysis. Unless conferences were relatively small, they did not have a good record in solving international problems.

Dr. Nyerere, Tanzania, was sorry that he had arrived too late to hear Mr. Fraser's intervention, but had listened appreciatively to Mr. Manley, who was spokesman for the trade union of the poor. He had found Mr. Muldoon's contribution extremely interesting because when he spoke as a farmer he was very progressive. He wished to remind the Meeting that the price of beef and the price of tractors worked on different systems; that was a constant problem. There were those who were subject to an industrial economy and those who were subject to a rural economy; although they lived on the same planet, the two peoples lived in two very different worlds. To be reminded of that thought by New Zealand was very interesting.

He wished to link Mrs. Thatcher's reference to the difference between the earlier need of the developed countries for growth, with what Mr. Manley had said. Because the developed countries were now preoccupied with problems other than those of growth, it was possible to think that growth was no longer the issue, but for some countries growth remained the central problem. Economists were agreed that poor countries had a capacity for quick growth, which the more developed countries did not have. The latter had developed quickly and had reached a stage where the problem was one of management. The poor countries were held back by constraints. If those constraints could be removed, the poor countries had a very strong capacity for growth.

The oil crisis posed a major problem. His Minister of Finance had informed him that in 1973 Tanzania's expenditure on oil amounted to 200 million shillings. Expenditure had risen to the rate of 970 million shillings a year before the price went up by 25 per cent. He therefore calculated that Tanzania's current oil bill must be about 1,212 million shillings, even though consumption had been reduced. Oil had obviously had a very bad effect on Tanzania's economy, but the oil crisis that they were talking about was the oil crisis of 1973. Tanzania's basic problem was there before 1973. Even if the Arabs were to promise that there would be no more increases in the price of oil that would not solve his problem. It would still be there. The basic problem was the division of rich and poor in the world, with the rich getting richer and the poor getting poorer. That problem was endemic. Oil was an additional problem. The solution adopted by the industrialised countries was to put up the prices of their products. The effect for Tanzania was that the price of a tractor went up; the price of machinery went up; the price of trucks went up. Tanzania did not produce any oil, any trucks; it therefore suffered at both ends. The Arabs put up the price of oil. The industrialised countries compensated themselves by raising prices. Trade unionists in the industrialised countries tried to protect or to increase their standard of living and demanded higher wages; that pushed up the cost of Tanzania's imports. What could Tanzania do to compensate? She could not increase the price of sisal; she had to produce a lot more sisal in order to buy what she was previously buying with less sisal. That was the problem of the poor. It was important to examine the basic problem, irrespective of oil and

inflation. There were still rich and poor in Tanzania, so the price of oil going up could not remove from decision-makers in Tanzania the responsibility to go on adopting policies which must reduce the gap between the rich and poor. He could not say that because of oil prices or because of inflation efforts to reduce the gap between the rich and the poor would be halted. Those efforts must continue. The international community had the same problem.

It was a political decision for Arabs to put up the price of oil. What really mattered was the threat to reduce the amount of oil. That had done some good in the sense that the developed countries now realised that oil was a limited commodity. It did not become suddenly limited from 1973 onwards. The geology remained the same. 1973 was merely a reminder that oil was not going to be there for ever. One could understand why the Arabs acted as they did; they could not go on selling oil cheap because oil was not renewable. It was a limited resource. That was a fact which had nothing to do with Gaddafi. The developed countries had been too lavish in their use of oil. That was political; it was not geology.

In spite of those problems, he hoped that nevertheless the developed countries would agree that the fundamental problem was not one of management but one of survival. What the poor people of the world demanded was to be able to live. Politicians all promised a higher standard of living to their people. Leaders of the poor world could not help making such promises, it was a necessity, their people must have a higher standard of living. Leaders of rich countries, however, should stop promising their people a higher standard of living. It was simply not possible. He had been told that the US consumed something like 40 per cent of the available resources of the world. Western Europe, with about the same population, wanted to catch up; that would use another 40 per cent. The Soviet Union, with an equivalent population, and anxious to show that socialism paid, also wanted to catch up. Where were they going to get the other 40 per cent? There was need for realism. They could not go on making promises to their people to be richer and richer. But there was all the difference in the world between promising the people another car or another television set and a second meal. What leaders of the poor countries were promising their people very often was a second meal and sometimes simply a good meal, a single meal, a day. It was necessary to face those problems. When all countries had co-operated and had satisfied the basic needs of the people, then would be the time to argue about how to control inflation so that people could get the second car and the second television set. The first priority was to give people food.

Mr. Clark, Canada, said that, as a newcomer, he was finding the Meeting fascinating. He would not try to match the wit and the perception of the President of Tanzania but he had been struck by a phrase he had used in talking about the difference between the problems of survival and the problems of management. Canada was a country which was running out of oil and could not get enough money for its beef, but he recognised that those were both problems of management, not of survival.

He welcomed and supported the proposal of Mr. Fraser and Mr. Manley that a group should be convened to focus attention on the very real constraints on economic growth that existed. He suggested that it would be very useful for the report of such a group to be available so that members of the Commonwealth could take account of the conclusions before the next Special Session of the UN. If a time-frame of that sort were to be followed, certain limitations would be placed upon the nature of the study. The Meeting would not want to duplicate studies that were being undertaken by other groups, such as the Brandt Commission. He thought it important that the membership in the group be kept relatively small. He would personally prefer to see it confined to experts drawn from the Commonwealth. He hoped that the terms of reference of the proposed study could be prepared by officials in time for informal discussion over the weekend.

II. WORLD POLITICAL SCENE (resumed)
SOUTH EAST ASIA (resumed)

Dr. Kaunda said discussion would now resume on the World Political Scene. For reasons of ill health, Mr. Burnham, Prime Minister of Guyana, had been unable to attend the conference. He welcomed the Foreign Minister as leader of the Guyana delegation.

Mr. Jackson, Guyana, said that he had decided to intervene while listening to the thought-provoking analysis of the Prime Minister of Singapore. There was a need perhaps for some supplementary ideas to broaden the scope of the discussion but he now intended only to comment on Mr. Lee Kuan Yew's observation that the tripled membership of the UN had led to a situation where it could not cope. Perhaps it was necessary to look at the concept of the world at the time of the creation of the UN and to see whether some of the assumptions in terms of managing the present system should not be changed. Perhaps the system should be changed altogether.

The UN was really a victors' club. It was created in the aftermath of the loss of great human life. A system was created in which the victors perceived that the issues of war and peace were to be settled by the principal victors. That was also reflected in the language of the Charter because the principal provisions referred to the maintenance of peace and security. It therefore proceeded on the assumption that peace had been achieved and all that was necessary was to maintain it. At that time it was assumed that peace would be maintained by means of greater international economic co-operation and by the pursuit of the right of self-determination. Whilst it was true that the process of decolonisation had proceeded apace since the creation of the UN, the global community had not yet really integrated into its consciousness the importance of the post-colonial revolution. People talked about peace in terms and concepts that were conceived on assumptions that were current in 1945.

Complete decolonisation was itself a necessary prerequisite for peace in today's world. Similarly, when the idea of international economic co-operation was conceived, the Bretton Woods system had just been created. That system clearly served the world well, or certain parts of the world well, but it had now broken down. The concept of peace now must be based on the notion that peace was illusory without the precondition of equitable international economic relations, and a process of economic development based upon equity and justice. He had intended to touch on the question of multi-polarity and perhaps to differ somewhat from the Prime Minister of Singapore's assessment that the bi-polar structure was the requirement of the times. Mr. Lee Kuan Yew had said that multi-polarity caused anxiety because no one was in control. The thrust of the post-colonial revolution, however, expressed in the activities of the Non-Aligned movement and other such groupings, was indeed to create conditions within the world that would allow new nations to consolidate their independence. By " independence " he meant not only an event but a process, and the creation of an international system whereby the peoples of those territories assumed a dominant role in terms of decision-making within national states. That was the essence of the remarks he would have made had time allowed.

Dr. Kaunda suggested that Mr. Jackson should provide the Secretariat with the full text of his speech in order that it might be circulated.*

Mr. Shyam Nandan Mishra, India, requested the indulgence of the Meeting as he had taken up office only three or four days previously. He expressed the sincere regret of his Prime Minister that he was unable to participate.

* *Editor's note : No text was provided.*

The world situation did not lend itself to too much generalisation and his own observations would be made in a spirit of pragmatism. Before embarking on them, however, he wished to assure the meeting of his deep attachment to the Commonwealth and to record his pleasure at coming to the continent which was the scene of the first political experiment by Mahatma Gandhi. There was no other part of the world more auspicious for him to make his first intervention in an international conference.

There had been a change of government in his country; he represented the new government. There must be a lot of curiosity about the change that had occurred in India but it should come as no surprise to those who were accustomed and attached to democratic processes. In fact, it was part of the process of clarification of democracy itself that such changes occurred. The change that had occurred in India had happened in the quiet, balanced manner which any democrat would sincerely desire. Far from being an abuse of democracy, as some newspapers had suggested, it had been part of the working processes of democracy. India remained committed to all the ideas to which it had been a party in the past and all the ideals about which it had been speaking since the days of Mr. Nehru. His presence was testimony to the strength of tradition and the continuity of his country's foreign policy. In particular, he reaffirmed India's steadfast support of the struggle against racism and colonialism.

He appreciated the stress laid by the President of Tanzania on economic growth. No country in the world, and particularly the developing countries, could hope to remain secure or stable without at least a 5 per cent rate of growth. Unless there was a leadership committed to bringing about such growth, there could not be peace or stability in any part of the world. He stressed the importance of economic self-reliance as a contribution to Non-Alignment and as an essential contribution to national independence. India was deeply committed to the policy of Non-Alignment because it was a global policy which could be pursued by any country. That policy was in keeping with the self-respect of any country, and was the only policy which would give stability and peace. In emphasising economic self-reliance, it was important not to lose sight of the importance of developing political self-reliance. That was a concept which was often ignored. In his view, those countries who struggled with their own problems, and developed self-reliance, could solve their problems. The national personality would evolve and a more enduring solution would be found. The importance of political self-reliance should be remembered by those who wanted to hand down the gift of security since it enabled a country to develop its own national personality and contributed towards security and stability.

Crisis points had developed in many regions of the world. In Southern Africa the problem was that words were not used in their proper meaning. All Commonwealth countries appeared to be committed to majority rule in Southern Africa. What exactly did majority rule mean? It was not a concept that was bandied about by ignorant people; it was a concept that had been accepted by the enlightened leaders of the world. If that was so, it was necessary to identify the ingredients of majority rule, without which the concept would be completely vacuous as was happening at present. Majority rule meant that there had to be a constitution which provided the mechanism for majority rule. Without that there could not be the majority rule that all had been talking about. Herein lay the heart of the problem: we used words but not in the way in which they should be used.

Turning to South East Asia Mr. Mishra said it was in a state that evoked sympathy from everybody concerned. Malaysia faced a problem that entailed enormous human suffering. The developing countries found that the spirit of confrontation between the great powers was being transferred from Europe to their parts of the world. If that occurred then there would be no peace. That was precisely the reason why the world found itself in the present situation.

Changes in South East Asia ought to be beneficial to the people. Instead, they were resulting in a great deal of suffering. People were being forced to leave their homeland and going to countries which could not cope with them. India had faced such situations and in the past had taken care of refugees on a large scale so knew what trials and tribulations those people had to undergo and what it meant to cope with the problem. As a result of its experience, India could speak about the problem with much greater sensitivity and sympathy than many others. International consultations could help find a solution to the refugee problem but, so far as the main political problem was concerned in South East Asia, the great powers must allow the countries of the region to settle it amongst themselves. It was only by mutual reassurances and giving more time that some kind of a solution might emerge. If there was again the spirit of the benefactor intervening in the scene, as had been in evidence to some extent, then the situation would become much worse.

In South Asia, the situation was more manageable. It had become much more satisfactory because much greater mutual trust and confidence had developed amongst the countries in the region, between India and Pakistan, and between India and some other neighbouring countries.

The situation in the Middle East continued to give concern. No lasting solution was possible unless the territories occupied by Israel were vacated—India's policy had been very clear right from the very beginning—he wanted to reaffirm that that was the only way. The Egypt/Israel Treaty failed in certain respects in fulfilling those conditions and so could not be expected to solve the situation there. There was a need for a comprehensive solution if a secure and durable peace were to be achieved.

India was also concerned that, in spite of efforts made by various parties, the Cyprus problem was still not resolved. It was a matter of regret that resolutions in that respect had not been implemented. India would like the question of Cyprus to be settled urgently by peaceful means in accordance with the UN Charter and the Resolutions passed by the UN General Assembly, and the Non-Aligned group. India would give her full support to the sovereignty, independence, territorial integrity and non-alignment of the Republic of Cyprus.

It was important that the Meeting should examine problems from a general and not from a narrow, national point of view. He had made his survey from the standpoint of a member of a " Committee of the Whole " in the belief that that would be more valuable than a presentation from a national point of view.

Dr. Kaunda adjourned the meeting at 6.15 p.m.

NOTE. A written statement relating to Sub-item 3b—South East Asia—was submitted for circulation by the Prime Minister of New Zealand. This statement is reproduced in the subsequent section of this Record.