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Contents

Smuts House Notes *page 2*
Otto Krause

Interdependence, Developing Countries and the World Bank *page 4*
José Bronfman

The World's Debt Crisis: An Overview *page 11*
Peter Oppenheimer

The Market Economy Approach to Development: The Singapore Experience *page 22*
Tan Kah Wah

World Economic Recovery: A Different Pattern from the Past *page 32*
Pierre Uri

Book Reviews: *page 39*
Dezinformatzia: Active Measures in Soviet Strategy
R.H. Schultz and R. Godson

Lexicon of Soviet Political Terms *page 40*
Ilya Zemtsov

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Smuts House Notes

South Africa remains embroiled in a curious family quarrel with the West. There is anger, and there is affection. While South Africa is still accorded a measure of regard by its mother countries in Europe (as much for family commercial ties as for reasons of kith and kinnery), we are nonetheless subjected to endless reprimand for recalcitrant behaviour. Which hurts. Enter a step-father, the United States, which with self-appointed authority is also acting difficult. Any grown-up child would surely walk away.

But no. The darnest thing about this recalcitrant child is that it still seeks parental approbation, occasionally to an embarrassing degree.

Yes, South Africa is something of the mixed-up kid in this quarrel. We see ourselves as dependent on the West, which we should not be. But perhaps we are, because we believe ourselves to be so. And we harbour resentment, because of the circumstance.

Yet at the same time we do little to make ourselves more independent by spreading our attachments elsewhere — which after all is what grown-up children do.

Clearly this is all a case of post-colonial hang-up on our part (while the West also has its hang-ups about us too, like its own racialist guilt). But a post-colonial hang-up is perfectly normal in the circumstances.

One saw the phenomenon among the ancient Greek colonies in Sicily and Southern Italy, which had detached themselves from their motherland. They often sought succour from the metropolis when in trouble; yet also felt a need to measure up, and to brag, with temples bigger and better than those in Athens or Corinth.

Even the mighty Americans till long after 1776 showed signs of the post-colonial syndrome, with a similar mixture of bragging and respectfulness towards Mother Europe.

We South Africans, since our country is small, follow the pattern to a fault.

In this vein one may further point out how long it took us South Africans to realise that we actually live in Africa. Now we are somewhat more aware of the fact under our feet; but acceptance does not come easily. A sign of the times, though, is the search on the part of Afrikaners for a perspective on Africa for themselves. There has been the recent debate on whether Afrikaans is truly an African language (which in one sense it is and in another it is not).

And the great hoot about Coloured antecedents in Afrikaner family trees has led some to see this as proof that Afrikaners are "of Africa".

At most this has been little more than a new-found sentimentality on the part of some Afrikaner verligtes. On a more serious level we have indeed had the Government's outreach into Africa over some 15 years, and this is the kind of thing that counts.

But when it comes to the question of true independence: as an African nation, with wider contact throughout the world, and somewhat removed from our Western embrace, we South Africans are more inclined to argument than action. We seem to prefer being mesmerised by the West.

Surely one of the main reasons for our continuing obsession with our Western parentage is that we just do not know much about the rest of the world outside the West — and this goes as much for black South Africans as for white. So much of our history is bound up with Europe; our skills, our know-how, our trade and investment come from the West; the West sets our standards; and we are tied to the West by language, particularly English.

It is not for nothing that nearly all our informational lines lead to London and New York, with European capitals coming a poor second. Tokyo, Buenos Aires, Istanbul and Bangkok are scarcely of our world.

Manifestly we ought to know more about the non-Western countries that are growing in importance, particularly in the Far East and to a lesser extent in Latin America. And it is to this initial task of spreading our informational network that our universities, our institutes, the Press — and our politicians — should increasingly address themselves.

In its wake must follow wider opportunities for trade, the chance of tapping new sources of investment, and beyond that better understanding of South Africa itself.

But to begin with it is only through greater informational inputs and deeper knowledge of the "other" world that we can spread our attachments over a broader base — like a grown-up nation.

It is after all unwise to get so caught up in our family quarrels with the West that we lose sight of that other world.

Otto Krause

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The following four articles are the texts of papers delivered at the SAIIA's Third International Conference on

ECONOMIC INTERDEPENDENCE AND WORLD ORDER

held at Sandton, Transvaal
on 5 and 6 September 1984

José Bronfman

Interdependence, Developing Countries and the World Bank

1. Thank you, Mr Chairman. It is an honour for me to speak to this forum. We accepted your invitation, Ladies and Gentlemen, to participate in the deliberations in this gathering with a sense of humility. The subject you have suggested for our contribution, "Interdependence, Developing Countries and the World Bank" is both important and challenging.
2. It is important because we in the World Bank believe that our role is to promote global co-operation in the effort to improve the human condition, particularly in our developing member countries. It is challenging because the task is not an easy one. Our success or lack of it depends on the commitment and determination of our member countries, and their appreciation of the costs and benefits involved.
3. As you all know, the World Bank is the oldest multilateral development finance institution. It was conceived along with the International Monetary Fund at the conference in the US at Bretton Woods, New Hampshire, forty years ago. The principal purpose of the World Bank was, and *remains*, to provide technical and financial assistance to developing countries in an effort

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to stimulate economic growth and to improve standards of living. It was recognised by the architects of the World Bank that the institution would play a central role in the process of financial intermediation which is crucial for acceleration of economic development. In this process, the Bank was to rely on the *soundness* of the investment financed with the resources provided: that is, *soundness* with regards to the technical, financial, managerial, organisation and economic aspects of development. This has been the principle on which all World Bank lending has been based.

4. I should add here that when we talk about the World Bank, we are really talking of three institutions: the IBRD, the IFC, and IDA. The International Bank for Reconstruction and Development (IBRD) or the World Bank proper relies for its funding on capital market issues in the industrialized countries (mostly OECD member countries), and lends funds at interest rates close to the market with maturities ranging from 15–20 years. As you know, capital needs are particularly large in the poorer developing countries whose hope for progress is based on rates of investment that far exceed their own domestic savings. But because not all developing countries can afford to service their loans even at the relatively favourable World Bank terms, the need for concessional assistance was recognised in 1960 through the creation of the International Development Association (IDA). IDA depends on financial contributions by some of its better-off members rather than on market borrowings and lends at no interest — an annual service fee is charged — with maturities over 50 years including a 10 year grace period. Most of the IDA lending goes to countries with annual per capita incomes of less than $400; and most Sub-Saharan Africa countries are IDA borrowers. In 1956, the member governments of the Bank, recognising the importance of private sector development, created the International Finance Corporation (IFC) to invest in productive business ventures in developing countries in partnership with the private sector. Such investments can take the form of equity and loans and will always be without the guarantee of member governments.

5. What emerges from all this is that the World Bank Group (IBRD, IFC and IDA) plays a crucial role as a facilitator of economic *interdependence* through capital flows both private and official. In more than 40 years of existence the Bank Group has loaned more than $100 billion for productive activities in developing countries and we have never had a single default on those loans. *These flows promote growth in developing countries* and this stimulates imports of capital goods from developed countries. Similarly, growth in developing countries is expected to increase profitable private investment opportunities for investors from developed countries. Thus, the developed and developing countries have, and indeed, should have a mutual interest in stimulating economic growth generally and in maintaining an open trading system.

6. In the interdependent global economy, the developed countries can reap benefits through opportunities to supply goods, services, and technical assistance. These types of assistance can accelerate the development process in the developing countries in two ways: directly, because many of the capital investments which aid finances have clear discernible effects on growth in important sectors (for example, the provision of basic economic infrastructure). Other aid-financed projects have made major contributions to *export* performance of developing countries. And indirectly, the technical-assistance and institution-building aspects of aid contribute to improved economic management and investment planning in developing countries, thereby facilitating growth.

7. The global economic context in which the World Bank operates needs to be noted here. The developing countries have suffered in the last few years from the worst recession in 40 years. Unfortunately, the current recovery in the developed countries is not yet strong enough to return developing countries to the comparable growth rates of the previous decade. Of course, each region of the developing world faces unique obstacles and opportunities and has different economic needs.

But the situation is critical on this continent, especially in that region which we in the Bank call *Sub-Saharan Africa* embracing some 45 developing countries. I would like to focus my remarks on this part of the world.

8. Economic and social conditions in Sub-Saharan Africa began to deteriorate in the 1970s and continue to do so. With population rising at over 3 per cent a year, income per capita in 1983 is estimated to be about 4 per cent below its 1970 level. Agricultural output per capita has continued to decline, so food imports have increased: they now provide about a fifth of the regional cereal requirements. Much industrial capacity stands idle, the victim of falling domestic incomes, poor investment choices, a failure to develop export opportunities and a lack of foreign exchange for materials and spare parts. Of course, no list of economic or financial statistics can convey the human misery spreading in Sub-Saharan Africa. Child mortality in Sub-Saharan Africa, for example, was 50 per cent higher than the average of developing countries in the 1950s; now it is almost double the average. Moreover, despite the surges in food imports and food aid, an estimated 20 per cent of Africa's population still eats less than the minimum needed to sustain good health. The number of severely hungry and malnourished people is estimated to have increased from close to 80 million in 1972–74 to as many as 100 million in 1984.

In most African countries, institutions and human resources are strained, and exponential population growth negates even modest economic growth. As most African governments have sought to finance growing balance of payments deficits, the twin spectres of indebtedness and rising interest rates have emerged. In some countries, debt has accumulated gradually as a result

of such factors as the declining price of key commodities. But even those countries which could point to a conservative record in external borrowing, found themselves suddenly overwhelmed by an accumulation of debt. Rising debt, in turn, brings about restricted access to commercial sources of finance and, in some countries, has led to chronic arrears on debt service and debt reschedulings. Thus, the economic condition in Sub-Saharan Africa as a whole is grim, and the outlook is not very encouraging. Even with optimistic projections for global economic growth, by 1995 per capita incomes may be no greater than the intolerably low levels seen in 1970. Major changes in domestic African economic policies and increases in development assistance flows will be needed to bring about even a modestly improved outlook.

9. The Sub-Saharan Africa economic condition must, of course, be viewed in its historical perspective. The African countries achieved political independence at a time when their economies where still highly dependent on metropolitan countries and internally unintegrated. With variation from country to country, the region suffers from market, technological, managerial, and entrepreneurial and foreign capital dependence. The net result is that African countries have difficulties in transforming their economies and adapting to external shocks.

10. With the generally bleak economic prospect in Sub-Saharan Africa, the World Bank attaches the highest priority for the decade of the 1980s to economic development in this region. Despite the shortage of IDA resources which has affected all low-income countries, the share going to Sub-Saharan Africa has increased from 16 per cent during 1961–70 to 25 per cent during 1971–80. Last year, commitments to Sub-Saharan Africa reached 37 per cent of total IDA funding.

11. At the request of its African Governors, the World Bank completed a major study in 1981 *(Accelerated Development in Sub-Saharan Africa: An Agenda for Action)* of the basic causes — both domestic and external — of the region's slow growth. The report focused on policy reforms that would be needed to reverse the declining trends in per capita incomes and agricultural output. This study was followed by another in 1983 — *Progress Report on Development Prospects and Programmes* — which highlighted "some of the major problems which African governments have faced in designing and implementing programmes of reform particularly in the context of the deteriorated global trading and financial circumstances". The Report examined changes which have been introduced in the level, pattern, and design of World Bank economic work and operations in support of such reforms. It also endorsed the commitment to accord priority to Africa and reviewed the extent of donor government responses to the increased and changed needs of African countries for external assistance. Two major conclusions are highlighted in the *Progress Report*: first, many countries have initiated the policy reforms that are critical for sustained improvement;

second, their eventual success depends on higher levels of foreign assistance than have been forthcoming.

12. It is difficult to build a recovery plan for Sub-Saharan Africa because the conditions within each country vary according to problems, potential, and requirements for external assistance. However, we in the World Bank believe that a general strategy among donors to support government-sponsored reforms is necessary to avoid a discordant development effort. Hence we have been working this year on a *third* report, the results of which will emphasise the need for a *co-ordinated* approach and strategy by donors to Africa's development effort. This report should be available at the end of this month.

13. Our commitment in the World Bank to assign highest priority to Sub-Saharan Africa is not in isolation of our overall strategy to foster economic development. Since the beginning of the 1970s, the World Bank has taken some major initiatives in response to the evolving needs of its member countries. First, the Bank shifted its sectoral priorities in order to focus more directly on the poverty problem with special *emphasis on equity and development strategies and investment programmes* designed to improve more rapidly the lives of millions of the desperately poor by increasing their ability to produce more. This emphasis involved a major shift in the Bank's lending in agriculture to emphasise smallholder farmers, and expansion of lending to small- and medium-scale enterprises and a major effort to redirect public services — ranging from extension services to potable water supplies — from the relatively rich to the neglected. By the beginning of the 1980s, only about one-third of bank lending went for traditional infrastructure projects, compared to 60 per cent a decade earlier.

14. Second, as a result of the dramatic increases in oil prices, and the severe impact on oil-importing countries, the World Bank sharply expanded its lending in the development of energy resources, including petroleum production. Since 1978, the Bank's *energy lending* has increased from 15 per cent to 22,8 per cent of total Bank lending in 1984 after reaching a peak of 26 per cent in 1982.

15. Third, in 1980, the World Bank introduced *structural adjustment lending* to support major changes in the policies and institutions in developing countries which aim to reduce their current account deficits to manageable proportions in the medium-term, while maintaining the viability of their development programmes. Within Sub-Saharan Africa, structural adjustment lending, extended so far to only six countries (Kenya, Senegal, Togo, Ivory Coast, Malawi, and Mauritius) varies with each country according to its unique economic situation. In several countries, some progress has been made toward financial stabilisation and structural adjustment loans have helped governments in pursuing policies which have reduced budget and balance of payment deficits, and moderated inflation. In

other countries, progress has also been made in restructuring the incentive system through adjustment in exchange rate and pricing policies. Still other African countries have taken steps to improve public-resource management or restructure external debt.

16. These major initiatives have allowed the World Bank to play an important role in assisting its member countries in a period of economic difficulties. At the same time, the implementation of these measures has enhanced Bank co-operation with other donor agencies. For instance, the World Bank has been working closely with the African Development Bank (ADB). Over the past five years, *co-financing* has amounted to $461 million covering 46 projects, and should increase with ADB's strengthened financial position. The Bank intends to expand its co-operation with ADB and particularly in the field of technical assistance.

17. The challenges of development in Africa and everywhere in the developing world are enormous. But the time for action is now. The World Bank is firmly committed to making a contribution in the effort to improve the human condition in its member developing countries in the spirit of interdependence. But this is a challenge that developed countries must also pick up, mainly in two ways: through increases in official development assistance as we mentioned before, as well as by not raising protective barriers against imports of goods from developing countries. I want to stress this last point because it is our belief that in the medium- and long-term, only if they are able to increase substantially their exports, will those developing countries now facing large external obligations be able to repay their debts, in orderly fashion, to restore the confidence of commercial lenders and private investors and interact fully in a world of interdependent nations working together for prosperity and peace.

As the subject of this event is "Economic Interdependence and World Order" I find it appropriate, Mr Chairman, to say a few words about what I consider to be a practical way of promoting economic interdependence, in a real case very close here at home where this conference is taking place.

I refer to the Highlands Water Scheme in Lesotho, which has received some attention in the local newspapers in recent days, and let me add two things: first, that what I say in this respect is only in my own personal capacity and, second, that the feasibility study of this project has not yet been completed and what I know and say is based only on interim, preliminary findings that still need to be confirmed.

The Highlands project in the neighbouring country of Lesotho, which most of you know by the name of the Oxbow scheme, in its narrow definition, has the purpose of increasing the supply of water to the Vaal region of the Republic of South Africa. This project will consist in the time-phased construction of a series of reservoirs, dams and tunnels to store water of the Sengu-Orange river in its catchment area in the mountains of Lesotho

and to transfer these waters which otherwise would flow, like they flow now, to the RSA and ultimately to the Atlantic Ocean, to the Vaal river system, *by gravitation* to be used in this area of Johannesburg and surroundings. In the process of transferring the water by gravitation there is potential to generate hydroelectric power economically in Lesotho and reduce this country's present complete dependence on the supply of power from South Africa.

Both countries, Lesotho and the RSA, can derive important economic and financial benefits from this project. The cost of this water to South Africa would be considerably lower than if this same water is pumped up inside South Africa through some 700 km after leaving Lesotho to the Vaal region. Lesotho would obtain important financial revenues for royalties to be paid by RSA for the amounts of water annually received. These annual payments would be used to repay the long-term financing of resources needed to build the project, to keep it running efficiently and the remaining surplus to finance plans for rural and regional development in Lesotho. It is a project therefore for the mutual benefit of both countries and one that could turn a present relationship of complete dependence into one of meaningful interdependence.

The World Bank has been requested by the government of Lesotho to assist together with the EEC and the UNDP in this present stage of studies and project preparation. Our involvement so far has been in that direction and also to ensure that in the implementation of the project there is a fair share of the benefits of the project by the two participating countries. As a multilateral agency, this role of honest broker has been exercised repeatedly, in Africa and elsewhere, and it is a role that we are prepared to play again in the case of this project at the request of two of our member countries.

Peter Oppenheimer

The World's Debt Crisis: An Overview

We have recently celebrated—if that is the right word—the second anniversary of the onset of the world debt crisis. It was in August 1982 that the Mexicans announced their inability to maintain external debt service, triggering an emergency rescue operation centred at first on the BIS in Basle and subsequently on the IMF in Washington. Actually, the troubles of the Eastern European debtors—notably Poland, Hungary and Rumania—had started earlier. But one may say that a truly *global* crisis was initiated only when the Mexican situation exploded. Piecemeal reschedulings of external debt, sometimes on a considerable scale, had been, after all, a recognized feature of the economic scene for the previous 25 years.

Dimensions of the debt crisis

Since the summer of 1982, between 30 and 40 countries in five continents have negotiated reschedulings of their external debt. Nearly all these reschedulings were short-term packages covering at most a few years. As a result, the second round of rescheduling is already upon us. Recent months have seen an important, more radical attack on the problem with the attempt to reschedule debt on a much longer-term basis, extending to 10 or 15 years. Mexico has again been in the forefront of these new arrangements. In some cases debt negotiations have involved a fair amount of cliff-hanging and mutual calling of bluffs—the debtor country declaring that debt service payments were suspended until a new loan package was available, and the lending banks and International Monetary Fund insisting that no new package would be forthcoming until debt service was resumed and, in addition, an appropriate programme of fiscal and monetary stabilization was in place.

Data on international debt are voluminous but not fully comprehensive. Such items as trade credit between non-bank entities are particularly elusive. The statistics are also subject to tiresome inconsistencies, depending on the

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source or the compiler, on the definition of country groupings and on the exclusion or inclusion of *short-term* debt (defined in this context as obligations with an original maturity of less than one year). In broad terms, however, we can say that the identified gross external debts of non-OPEC developing countries will at the end of 1984 total something like $740 billion. About half of this sum is accounted for by half a dozen countries, headed by Brazil, Mexico and Argentina. To this total should be added at least another $100 billion to cover debtors who are members of OPEC (Ecuador, Nigeria, Venezuela) and Eastern European countries not included in the developing country category (Hungary, Poland and Rumania being the important "problem" cases here). On the other hand, these gross figures arguably overstate the size of the debt problem. Some external assets of the debtor countries may legitimately be set against them. This certainly applies to, for example, official foreign-exchange reserves, or at least to a portion of them. More questionably, residents of developing countries have extensive private assets abroad ($150 billion worth of more) some of which would represent eligible security for external loans. There has been a fair amount of finger-wagging at the LDCs, particularly in Latin America, for failing to prevent "capital flight" by their own citizens, thereby obliging Western banks to finance the acquisition of real estate in Florida and dollar bonds in Switzerland through loans to LDC governments. A cynic might retort that banks should welcome their money going into assets as sound as Florida real estate or Euro-bonds compared with some of the other things it might go into. The catch, however, is that the corresponding debt obligation falls not on the private asset-owner but on his government, i.e. the taxpayer. To this extent the structure of international indebtedness involves an element of regressive redistribution of income within LDCs — from taxpayers to private wealth-holders — which, besides being morally questionable, could prove politically destabilizing in some instances.

The burden of servicing external debt depends partly on the amount of debt outstanding (measured in relation to a country's GDP or its exports of goods and services) and partly on the terms of the debt, i.e. the interest rate and maturity structure. In 1983 the biggest debtors and also some lesser ones (e.g. Zaire) had debt/export ratios in excess of 300 per cent and in a few cases 400 per cent. In these circumstances interest payments alone — even with interest at 15 per cent — would have implied debt-service/export ratios of at most 45–60 per cent. However, with debt maturities shortening, amortization payments raised the ratio to over 100 per cent for at least ten countries (Argentina, Brazil, Chile, Ecuador, Mexico, Morocco, Peru, Zaire, Philippines, Venezuela) and to 200 per cent for a few of them. Rescheduling has been concerned strictly to reduce amortization on the maturity of a country's obligations. It has not so far involved any concessions in respect of the interest rate charged. Indeed, to the consternation of some

observers, the interest terms (i.e. the margin above LIBOR — the London-inter-bank offered rate for dollar deposits) were commonly harsher after rescheduling than before. Unpaid interest has simply been capitalized and added to the total debt owed. As I shall emphasize later, this approach will have to be modified if real interest rates remain at their present level for much longer.

Impacts of the crisis

This brings us to the central question of what the debt crisis threatens to do to us, if it is not satisfactorily resolved; that is to say, if large-scale repudiation of debt by LDC governments is not prevented, and perhaps even if it is prevented. Three elements must be distinguished. The first is the threat to the soundness of the Western banking system, notably the major US banks whose claims on the large Latin American debtors alone amount to between 1½ times and twice their own capital. At the very least, this could involve the Federal Reserve System and other central banks in a series of "last-resort lending" or "lifeboat" operations of unprecedented magnitude and correspondingly uncertain outcome.

Secondly, there is the threat to international economic relations and, through them, to economic activity and progress generally. International trade flows would be seriously hampered by the shrinkage of credit if we had a real default crisis. International investment plans would be curtailed at least temporarily. Protectionism would intensify. Primary commodity markets would show added instability and price weakness. All this would signify a further increase in economic uncertainty and in dependence on government action in the OECD countries to sustain and revive economic activity — precisely at a time when many of those governments are ill-prepared for such action, being preoccupied with the containment of inflation and of their own public spending and borrowing.

Thirdly, and in the long run most important, there is the threat to economic development and welfare in the less developed world. It is important to remember that population growth in many developing countries, although slowing down, is at present still running at between 2 and 3 per cent a year; so per capita incomes fall if real GNP grows less than this. From 1980 to 1983 per capita incomes in the less developed countries did in fact decline by about 8 per cent, under the continued impact of world recession and their own forced stabilization programmes. Even optimistic projections do not envisage the 1980 levels of real income in LDCs being generally regained until 1987. (Those are the optimistic projections; the pessimistic ones are less readily published). In other words, even the containment and successful resolution of the debt crisis involves a serious blow to the economic development of poor countries; and, of course, not only to those with large debts, since international linkages are bound to

spread the difficulties and hardships around the globe, as they have been doing.

"Containment" is a well chosen word. As the second anniversary of the crisis reminds us, we are talking not about a short sharp shock to the world economy, but about a chronic problem area which will generate policy difficulties for years to come, even if (as one may reasonably hope) major politico-economic disasters are avoided.

The *causes* of the crisis need to be pondered, not in order to apportion blame but as an aid to sensible policy-making in the years ahead. Three parties to the situation may usefully be distinguished: (1) borrower countries; (2) financial intermediaries (essentially commercial banks); (3) OECD-country governments, led by the United States, together with relevant international institutions, notably the IMF.

Borrower countries have been accused after the event of over-optimism, mismanagement of investment programmes and even deliberate misrepresentation of their own policies. There have undoubtedly been individual cases of reckless optimism on a national scale — most conspicuously Mexico in 1979–1980. And perhaps there was a more widespread assumption that the negative real interest rates which prevailed for much of the 1970s in world markets would continue for another decade. Historically, positive real interest rates of between 1 and 3 per cent have been the norm. But, given the world savings surplus in the aftermath of the first oil-price increase of 1973–1974, a period of lower real rates was not an unreasonable expectation. However, even ignoring this relatively subtle point, we have now had *five* successive years with real interest rates of 7 per cent or more, and no firm indication of an early decline from this level. Such figures could not reasonably have been foreseen. It should also be stressed that the naughty boy, Mexico, has had greater success than any other borrower in restoring its balance of payments by well conceived and executed stabilization policies, and its overall current account is, in fact, now in surplus and has been for over a year.

There is no evidence that a majority of the 30 or 40 countries grappling with external debt problems were guilty of reckless over-borrowing at an earlier stage. Up to 1980, in fact, the distribution of world borrowing was generally judged to be broadly reasonable, reflecting the maintenance of economic growth in the leading Third-World countries at 5–6 per cent per annum (compared with the slow-down to 2–3 per cent in the OECD area), and reflecting also the relative sizes of different countries' GNP. And this judgment about the essentially reasonable distribution of world borrowing I do not believe has basically altered today; given a reasonable rate of growth of world output in the next decade and a decline in real interest rates on LDC debt to more justifiable levels, the debt-servicing capacity of most LDC debtors looks satisfactory. Of course, there are other dangers, such as a sharp

acceleration of protectionism, but that again is something for which those countries would certainly not be blamed.

This defence of the earlier behaviour of borrowing countries is, by the same token, also a partial defence of the commercial banks and their lending strategies since, after all, if the bulk of borrowing by Third World countries looks not unreasonable, one must say the same of the corresponding lending by the credit institutions. Nevertheless, one cannot altogether avoid the conclusion that, while starting from perfectly sound foundations, the banks ultimately "overdid it", allowing the pressures of competition and bandwagon psychology to override their better judgments about the limits of prudent lending. (Incidentally, one may also observe the "financial naïveté" of Arab depositors of surplus oil revenues which attracted patronizing comment a decade ago, has now turned out to be the higher sophistication when you look at the mess that those who were enthusiastic to engage in longer-term lending have got themselves into). Just as the partial defence of LDC borrowers was also, by the same token, a partial defence of the banks who lent to them, so the criticism which I'm now making of the banks is at the same time a criticism of the monetary authorities in the industrialized countries, since the authorities are responsible both for overseeing the health of the financial sector and for managing the balance of international payments.

Vulnerability of the system

The vulnerability of the international credit system is an analytically complex matter, involving three distinct elements. All three, however, raise the question of the proper relationships between private institutions and public authorities. The first element is the danger of unbridled competition in any financial market, domestic or international. This lesson was first clearly learnt in England in the third quarter of the nineteenth century, from repeated banking crises and from the writings of Walter Bagehot, the distinguished editor of the *Economist*, (who incidentally was also the inventor, for good or ill, of the Treasury Bill). If market competition is left to run its course without external limitation, it must rely on the discipline of bankruptcy to eliminate imprudent or unsuccesful operators. This discipline is not generally acceptable in banking, both because of the internal character of the banking sector itself and because of its macro-economic significance for the economy at large. Internally, the proneness of banks to get caught up in "bandwagon" effects in their lending business, and the absence of reliable information available to depositors about the soundness of financial institutions to which they entrust their money, means that the failure of one major bank is liable to spread through confidence effects to other parts of the system — unless of course, panic is nipped in the bud by timely official intervention to protect the depositors' assets. But the authorities must tread a fine line: the need to

protect depositors must not become an excuse for allowing bank managements and shareholders to profit from imprudent or ill-considered lending — the so called "moral hazard" problem in banking.

Macro-economically, the position of the banks as a repository of savings, as a source of working capital for business, and as administrators of the payments mechanism, means that a major banking collapse will have far wider repercussions on the economy at large than the failure of even the largest manufacturing company. The implication of all this is, of course, that unbridled competition in the banking sector cannot be allowed. But whereas this has long been recognised in theory and in practice in domestic markets, and indeed there are some notable examples of the lesson "at work" in the past 10 or 15 years (I'm thinking particularly of the lifeboat operation in Britain in 1973/1974 to deal with the so-called secondary banking crisis and also of various salvage operations on US banks by the Federal Reserve in 1983/1984), there are great problems in making it operate effectively in the international domain. There is no world central bank. Instead there has to be a series of piecemeal restraints on competition and where necessary co-operative action by the national central banks. That is the first element, as I say, in this complex analytical story about the vulnerability of the international credit market.

The second element concerns balance of payments financing. It is a well established principle, and was universally accepted in the days of fixed exchange rates but has rather been lost sight of since, that when we are talking about financing a balance of payments *disequilibrium*, necessarily a temporary matter, we are in a domain where ordinary commercial lending criteria cannot be expected to apply. The fact that a balance of payments position is in disequilibrium implies that borrowing is not sustainable, that it is temporary, that it is compensatory finance which must be brought to a halt by an appropriate adjustment policy. The difficulty is, that circumstances since 1973 have made it very difficult to draw a line between that part of the current account imbalance in international payments which can be called disequilibrium, and is therefore a matter for the authorities to deal with, and that part which can be called normal or equilibrium international financing based on ordinary commercial principles.

Let us be concrete. Take the case of Saudi Arabia. Everybody knows that since the first oil price rise of 1973/4, the Saudis have had an enormous current account surplus. Can this be called a disequilibrium? Not to a very large extent, because the nature of the Saudi economy is such that they are bound to have a substantial excess of national savings over their domestic investment opportunities at the going world return on capital, and therefore it is part of a world-wide equilibrium position that Saudi savings should be made available through a current account surplus to finance projects in other parts of the world. Correspondingly as I implied earlier, countries like Brazil,

South Korea, and other leading members of the Third World have development and investment opportunities in excess of their national savings, and are appropriate borrowers on the world market. If this wasn't so, we really would have a world crisis on our hands; as it is, things should be manageable. But it also means that, because of the dominance of the commercial banking sector in international balance-of-payments finance over the past decade, the line between reasonable commercial lending and emergency balance of payments credit has become blurred. In fact it has only been recognized when the banks collectively have had to call on the IMF for help because the debtor countries faced with a short term liquidity crisis treated all their debt alike and simply declared "We cannot service our debt anymore". In sum, the problem of distinguishing between normal commercial international lending and finance for balance-of-payments disequilibrium is an important source of difficulty at present.

I come, finally, to the third analytical element, and that is the question of so-called sovereign debt. It is a peculiarity of the current lending pattern, even that part of it which rests on proper criteria, that the debtors are very often national governments or government-guaranteed institutions. This means that a private foreign lender such as a commercial bank does not have recourse to the courts to foreclosure, to the normal legal protection which a bank is entitled to expect even internationally from a private borrower. Sovereign borrowers therefore have a certain incentive to use default or repudiation as an ultimate weapon in pursuit of their national interest. To oversimplify, there is a clear incentive to default in any situation where a sovereign borrower feels that the net outflow in respect of international debts in the foreseeable future—that is to say, the present value, discounted at some appropriate interest rate, of all future outflows to service debt exceed the present value of all future inflows that can be obtained by continuing debt services.

Dr Carli referred to this phenomenon in an historical context, when he said that in the 19th century there was never any net repayment of international debts because new flows, particularly from Britain as the major source at that time, (the OPEC of pre-1914!) always exceeded the flow back of interest and amortization payments. There were, of course, individual defaults, but they formed an important safety valve, and kept the sytem viable, given that banks were not involved. International lending was predominantly in the form of bonds held by individual investors. In today's circumstances we need to maintain the confidence of major debtor countries so that reasonable co-operation in debt service is worth-while for them. This means that it must enable them to be more than compensated for the debt service payments which they make by the receipt of new credits from abroad to assist their reasonable development efforts. Here again, of course, officialdom has to play a role in influencing interest rates and in preventing

the banks collectively, when they're in a negative bandwagon phase, from halting the flow of credit almost overnight, as they would have done in 1982.

Dr Carli also referred to the fact that in 1973/4 official institutions, encouraged private banks to do the recycling. I have no quarrel with that description, but one could also put it in less complimentary terms and say that official institutions were paralyzed by the new world in which they found themselves. It is in the nature of bureaucratic and governmental institutions that they cannot respond as flexibly as private markets to such a substantial structural shift as the sudden emergence of OPEC countries as the world's big lenders and Third World borrowers as the world's major borrowers. Quotas in the IMF for instance do not reflect the altered position even of Germany, Japan and Italy in the world economy after 1945, never mind Saudi Arabia and Brazil. Structural change in bureaucratic institutions is necessarily slower and more cumbersome than in private markets, and we may be grateful for the flexibility of markets in being able to respond swiftly to new circumstances. Fortunately the chronic inflexibility of official bodies has not prevented effective crisis management in the short term. National and international authorities did take decisive action to fend off and contain the world credit crisis.

Some of the more extreme market-orientated commentators have insisted on the need to let the banks stew in their own juice. In the United States especially, it has been a popular theme that the banks must carry the can and must not be bailed out by the tax payer.

To be sure, bank shareholders and managements should be made — and have been made (e.g. Continental Illinois) — to bear the consequences of bad lending decisions. But the emergency action taken by monetary authorities since August 1982 to stave off world wide financial collapse has been in the interests not of the banks but of the whole economic system. But furthermore the crisis management and last resort lending role of the authorities has been seen in relation to the macro-economic policies which largely precipitated the debt crisis.

US financial policies

This point deserves major emphasis. The prime short- and medium-term cause of the crisis was not any global over-borrowing by 40 countries, nor was it bad judgement by a couple of hundred commercial banks. It was rather the financial policies pursued by the leading OECD nations, most importantly the United States. World financial integration has enhanced the global impact of US policies even though US GNP is a considerably smaller percentage of the world total than it was 30 years ago.

President Reagan cut taxes in 1981 for reasons of supply-side ideology, because he believed in the enhancing of market incentives to work and to save by reducing marginal rates of tax. If one wants to do that, and it's a perfectly

reasonable ideological position, one should at the same time cut government expenditure *pari passu* in order to avoid large budget deficits. That, of course, is always a more difficult — because less popular — thing to do. At the same time there have been some extreme supply side ideologues in America who cooked up absurd arguments that even if you cut taxes, total revenue wouldn't fall because everyone would work so much harder that extra revenue would be generated, and even if people didn't work harder, they would want to save so much more that there would be no problem about borrowing to finance the extra deficit without upsetting financial markets. All that, of course, turned out to be nonsense. The result has been a policy mix consisting of budgetary stimulus and monetary restraint.

The global effect of this US policy strategy has been mixed. The stimulus to the US economy itself in the last two years has been a very helpful feature. By contrast, the high interest rates have been unwelcome and have helped precipitate the debt crisis. But the net effect on the rest of the world during the past two or three years of US policy, I judge to have been clearly favourable. What is worrying is the inflexibility of the US budgetary process, which means that there is at present no end in sight to the stream of large budget deficits and associated external borrowing by the US itself, (since the US profit sector provides nothing like enough surplus services to finance its own government). In the short term again, no one minds lending to Uncle Sam. In the longer term, it is inappropriate for the United States to soak up so much savings from their countries and indeed to become a debtor nation once more — as it was before 1914!

Strategy for the future

Let me finally turn to future prospects and make some general remarks about the sort of action that I would like to see — mainly from governments, to a lesser extent from banks — in containing the difficulties of the present situation and allowing the world economy to move forward. Let me reiterate, first of all, the obvious point that the debt crisis is a part of the long-run adjustment to the structural shocks of the early 1970s — not only the oil shock, but also the shift in the centre of gravity in world economic dynamism away from North Atlantic area and Japan, towards newer countries of the Third World. It's only a partial shift. Technological innovation is still centred in the old countries. But it is a shift, and changes of this kind are difficult to cope with, when they come in bunches.

Having said that however, what kind of policies should be looked for in the medium term? I would like to see reduced emphasis on the containment of inflation. Inflation is a problem. But it is not the only problem that we face in the world. One of the great lessons of economics — and heaven knows there are many of them — is that it is very dangerous to concentrate too much on solving a single problem at a time, promising yourself either that the

solution of that problem will automatically solve all others, as Mrs Thatcher is inclined to do in the UK, or that once you have solved this first problem, then there will be time to get on and solve the others. Life really isn't so simple. Problems do not come singly. We cannot afford to neglect the issues of employment, of declining per capita income in Third World countries in the early 1980s, restructuring in response to new technology and so forth until we have conquered inflation. You can't extradite it once and for all. It's always liable to crop up again, when things change. It's not even clear what "conquering inflation" means. In my view, European governments should give a more positive lead in enhancing public investment and in rekindling and sustaining economic growth.

Secondly, we must recognize that the longer-run rescheduling of debt which the banks and the IMF are in process of negotiating with the debtor countries, though extremely welcome, may not be sufficient. We must keep further shots in the locker, not excluding a partial write-off of some of those debts, or extensive interest-rate subsidies. As long as it's only partial and done in clearly defined circumstances it would not create the moral hazard and incentives to irresponsible behaviour that some people fear. Let me re-emphasize that default and repudiation, which we are now at pains to avoid at all costs, has customarily been a weapon of international economic relations in crisis times. There were plenty of individual defaults by debtors in the 19th century, and of course the world crisis of the inter-war period involved extensive debt defaults. We want to avoid that, but it requires a little give and take on both sides. We should not exclude the possibility of transferring onto the taxpayers and bank shareholders of rich countries a modest further portion, of the international debt burdens of the moment.

Thirdly, a word about deregulation. This is yet another aspect of the relationship between government and markets. I detected a hint in Senator Carli's remarks that deregulation in his view has perhaps gone a little too far and too fast. I strongly agree. It seems to me illogical that we should be going pell-mell for deregulation of financial markets, and at the same time for creeping regulation of international trade through protectionism. That is surely getting our priorities quite wrong. And let's be clear, that one of the causal elements behind the increase in protectionist pressures is precisely deregulation of financial markets. Deregulation is partly responsible for the extreme movement of US interest rates, and therefore of the dollar, which has upset the competitive position of many US industries and thereby strengthen their motive for seeking protection. So there is actually a fairly direct, albeit lengthy connection between deregulation and protectionist pressures. Monetary authorities must try to limit the more extreme movements of interest rates and exchange rates in financial markets in order to prevent any further sliding towards protectionism.

My concluding thought is a less technical one. It is all very well for

lecturers and advisers and consultants to advocate clearly designed policies. In the last resort these things can't be decided only at the technical level. Politics in the shape of both public opinion and the temper of the legislature plays an essential part. And therefore publicity, educative publicity, must play its part too. In the United States, for example, public opinion is still imbued with certain traditional primitivist hostility towards banks, and Congress tends to be suspicious of the IMF. Such a mentality forms important constraints on what any US administration can do. I think we have to accept that at the moment the degree of interdependence and international linkage in our economic relations has gone ahead of what national public opinion even in the more sophisticated countries is readily capable of accepting. This tension between international linkage and nationalistic outlook is going to be a continuing source of uncertainty and challenge in the world economy of the next decade or two.

Tan Kah Wah

The market economy approach to development: The Singapore experience

The essence and the hidden challenges that could easily transform themselves into intractable political, economic and social problems associated with the word "development" is succinctly captured in this revelation by Singapore's Deputy Prime Minister, Dr Goh Keng Swee, when he as Finance Minister was held accountable for drafting and launching Singapore's initial economic plan in the late fifties/early sixties.

He said, "I remember in the first few years in the Finance Ministry when I was going home for lunch, I passed big schools and saw thousands of children going home at 1,00 pm. It was such a depressing sight because I kept worrying where I was going to find jobs for them. It came to the point where I avoided the schools and changed my route".

Today, despite being considered as a model of successful economic development, the present Finance Minister's position is somewhat just as depressing and worrisome—he worries if there is sufficient Singaporean managerial, professional, technical and skilled labour to meet the needs of a current economic plan that is targeted to bring Singapore to the next stage of industrialization.

In short, within 20 to 25 years, a labour surplus scenario has given way to an acute labour shortage predicament.

Now if "development" is synonymous with an improvement in the quantitative/qualitative aspects of life, the following commonly used indicators put Singapore in a relatively upstream position within ASEAN, Japan and other developed nations. (Refer to Annexures A and A(1).)

As a matter of fact, in the last few years, Singapore with a 1982 per capita GDP of US$5300 has lost some of its GSP privileges, being considered a developed, not a developing nation. As such, we have also been placed outside the loan privileges granted by the World Bank and the Asian Development Bank.

This has not always been the case.

Singapore is a small island republic of 618 sq km (0,04 per cent the size of South Africa) with a population of 2,5 million (nine per cent the population of South Africa).

It was discovered in 1819 and thereafter came under various forms of

British colonial administration before gaining self-government in 1959. Self-government meant that Singapore became responsible for all facets of government except in external defence and foreign policy — these two latter aspects of government resided with the British Government.

From 1959 to 1965, we sought political and economic accommodation with a greater entity — Malaysia — but separated in 1965 to become a fully independent republic.

What was the setting in 1959, when we attained self-government?

In the political sphere, the People's Action Party that formed the government had to contend with a pro-communist political alternative — the Barisan Socialis — for the hearts and minds of, in the main, a politically disinterested population.

Nonetheless, comparatively high unemployment in the late fifties and early sixties had been a strong factor that fuelled both anti-colonial and anti-government sentiments leading to student and civil unrest, including rioting in the streets. Political continuance of the party required it to wrestle conclusively with the spectre of high unemployment. For example, unemployment of 24 000 in 1957 increased to 46 000 in 1959.

Given this context, party strategizing and economic advice surfaced the following simple, non-ideological *musts:*

— The government must provide jobs for all willing and able to work.
— The government must nurture a society where all citizens could have a decent standard of living.
— The government must concurrently increase income and improve standards of living.

In numerical terms, the battle for the hearts and minds required a 5–7 per cent labour force growth for the sixties, when in the experience of the prior 10 years, labour force growth had been two per cent — a formidable task for a relatively inexperienced government that had no world-wide models to emulate at that time in history.

It was clear that a failure to cope with the projected labour surplus would propel the Barisan Socialis and other pro-communist groups into political leadership by default.

The period 1959 to 1965 therefore represents a formative period of an economic and social policy that continues adaptively today. I stress the word "adaptively".

Put into other words, the government decided after its pragmatic and realistic assessment of the situation, that it could not govern through purely socialist dogma expressed through a centralized economy — instead it appraised the prospect of achieving the social and economic objectives enumerated above as being more likely if it led, stage-managed and continuously monitored the pulse/direction of a free enterprise economy.

Subsequent government efforts, therefore, were concentrated towards

four principal objectives:

— The creation of an attractive financial climate for industrial investment, including a wide range of tax concessions and free profit repatriation.
— The build-up and upgrading of a sound infrastructure of expanded port facilities, better communication, power supply and the establishment of industrial estates.
— The establishment of state enterprises.
— The establishment of domestic-social and political stability with a trained available/cheap labour force.

What were the circumstances that persuaded the government to make such a major entrepreneurial decision to industrialize via the attraction of foreign investments — initially using an import-substitution and thereafter an export-orientated strategy — instead of going it alone politically, economically and socially as was the inclination of newly independent countries then.

Firstly, Singapore with a population of two million was by itself too small a market to attract the quantum of foreign/local investments required to create the number of employment opportunities needed.

Secondly, its forte was in commerce, not in manufacturing.

Thirdly, local capital was strictly commercial in origin/outlook — it gravitated towards short term risks with high returns and was not about to ride in tandem with the government as yet.

Fourthly, we lacked the managerial and technical skills required for an industry setting.

Foreign investments and overseas expertise had therefore to be encouraged and concessions to foreign investments made in order to overcome the disadvantages listed above. The profit motive, the main-spring of all free enterprise had to be acknowledged — and it was conceded. To this day, profit is not considered a "dirty word". It is acknowledged that any foreign enterprise that seeks to upgrade and/or expand needs to seek a profit that will enable it to do so, thereby creating more and higher level opportunities for Singaporeans and adding to our GDP.

The speed/diversification of foreign investments in Singapore over the years is shown in Annexures B and B(1) (pages 29 and 30).

Simultaneously, in order to prepare an attractive infra-structure and to build momentum, the government established several statutory boards, whose collective efforts would support the government's economic plan.

For a start, US$50M was allocated to the creation of the Jurong Industrial Estate, where it was envisaged that all manufacturing activities would be concentrated. Work began in 1961. Today 35 per cent of our industries, mainly the capital and technology industries, are located in Jurong. Since then we have added 18 other industrial estates to cater for light electrical and electronics industries. In the early sixties, Jurong was nicknamed "Dr Goh's

Folly". Today it is a showcase for Singapore's successful industrialization.

The Economic Development Board, responsible for the planning and promotion of industrial investment, was established in 1961.

Jurong Town Corporation, responsible for the development and management of all industrial estates, was subsequently established in 1968.

The Port of Singapore authority, responsible for port facilities/expansion, was revamped in 1964.

The Public Utilities Board, responsible for the supply/development of power, gas and water, was established in 1968.

The Development Bank of Singapore, responsible for assisting foreign/local investors with their financial needs, was established in 1968.

Since their emergence, these and other statutory boards have modified their roles and their activities in resonance with the economic objectives outlined in each successive economic plan. Broadly, these economic plans advanced Singapore from an economic strategy of import substitution to export-orientation, further upgrading, diversification of manufacturing technology, and currently our economic plan calls for an entry into both advanced technology and the service industries — in which Singapore enjoys a comparative advantage by reason of its human resource development programmes and industrial experience.

Additionally, since industrialization required a growing technical and science-based human resource pool — the direction of secondary, technical and tertiary education was systematically re-tuned in that direction in order to support the skill needs of industrialization. Aside from an accelerated scholarship programme that despatched many more young Singaporeans to foreign universities for scientific/technical/industrial education, the Government also permitted the employment of expatriates in Singapore, provided their essential presence was justified.

The build-up of technical and graduate manpower is clearly shown in Annexure C (page 30).

While not as monumental a task as attracting foreign investments, this re-direction required a cultural re-orientation as the "white-collar" mentality was prevalent — being nurtured by Asian tradition, a colonial administration which was supported by clerks and administrators and a time-honoured entrepot trade that did not emphasize technical/scientific proficiency.

Even today, the government and social leaders have had on occasions to speak out against the tendency of the educated young who opt for the air-conditioned comfort of offices and hotels and shy away from blue-collar jobs available in the technical/industrial sectors.

Fortunately for Singapore, its immigrant population from mainland China and India recognised the opportunities available in the new direction and responded fairly quickly to the changing environment presented by industrialization.

Looking back, it has to be acknowledged however that what was equally important was the supportive background of the world economy.

In the decade of the sixties, the industrialized nations of the West and Japan experienced a long and sustained boom. The boom was itself a direct consequence of the growth industries established in the post-war years and it was based on new technologies and inventions, e.g. the electronics revolution spawning a whole new range of home and recreational appliances.

Other growth industries were aerospace and tourism.

To cope with the overall demand, industrialized countries like Germany imported guest-workers; the US and others preferred to establish offshore manufacturing centres where relatively cheaper labour, preferably skilled in simple assembly, processing or manufacturing, could be found.

Singapore, like Hong Kong and Taiwan, was one of the developing nations that made the appropriate situational analysis and prepared itself for integration in a world-wide manufacturing system.

You can understand that given the social situation and economic/social objectives, the reliance on foreign investment was therefore inevitable and their dominance unavoidable at the start. Subsequently, however, the government and its economic planners, having gained some experience in managing industrialization, began a conscious policy of diversification — sourcing investments from different countries and encouraging different types of investments so as to decrease the likelihood of any one investing country from being overly influential as well as to ensure that there was a balance in manufacturing investments in terms of type of industrial activities/products.

The official encouragement of large-scale and therefore largely foreign investment has not always been understood or accepted, but it has been critically necessary in the sixties.

There had been, from time to time, allegations about the government's bias towards foreign investors. If we examine subsequent government schemes, we would come invariably to the conclusion that attention was also being paid to the encouragement of local entrepreneurs.

By and large, local entrepreneurs were hesitant to come out of their niches as importers/exporters, sole proprietors of printing presses, and other domestic businesses and to take the lead in the sixties, leaving the government no choice but to rely on foreign investments. Today, the situation has progressed somewhat and local entrepreneurs have embarked on joint-venture investments.

Currently, foreign investments set the pace and form the core of the manufacturing sector, leaving local and joint-venture investments in a complementary role, supplying this core with materials, components and services.

Annexure D will illustrate the complementary role local investments play

in Singapore's economy—small size and not the main partner in output, value added, etc.

The government is continuously encouraging local investments to develop a bigger stake in the manufacturing sector through various incentive schemes.

I would at this juncture describe the role the government played in industrialization. It was not a minor role. What was the philosophy behind this role?

Party leaders and economic planners acknowledged that while the free enterprise system may be more flexible and can react more effectively to market forces than can the state, nonetheless its priorities are where the profits are greatest. And for a developing country with limited natural resources and limited skilled manpower, the unrestrained operations of the free enterprise system can result in lumpy and lop-sided development, wastage of scarce resources, excess capacity and over-investment. In other words, while conceding that profit maximization is a legitimate goal, profit maximization as the sole motive can upset social priorities and prove harmful to the wider interests of the community. For example, large projects that require heavy investments and which often take a long time before returns on investments can be realized, will not attract local or foreign investment.

And at times, security considerations may preclude certain industries from being undertaken by the private sector. Because of all these restraints, the government extended its function beyond the traditional duties of providing and maintaining good public administration and enforcing law and order. Aside from its build-up of statutory boards, the government became sole proprietor of or bought equity in several enterprises.

Singapore International Airlines, Neptune Orient Lines, Keppel Shipyard, Singapore Shipbuilding & Engineering, National Iron & Steel Mills are prominent examples of government-owned enterprises. The government has also established venture capital companies and these have diversified into hotels and other commercial, business and industrial activities.

State enterprises however have been the subject of considerable debate. What is prominent in Singapore's state enterprises is that they are run along a "bottom line" basis, similar to that in the private sector. Their managerial/commercial competence is judged by their yearly "P & L" account. A state subsidy has never been considered as a politically or economically acceptable option.

In addition, aside from creating an attractive investment climate and direct participation in the industrialization process, the government influenced economic progress on several other fronts. Two examples come to mind.

A more disciplined and stable environment was launched with the introduction of the Employment Act and the Industrial Relations Act in

1968. These two acts outlined the rights as well as the obligations of trade unions and the employer.

Industrial unrest — arising from a combination of ill-defined rights and obligations plus a significant degree of political interference dramatically dropped (as can be seen from Annexure E) — in time Singapore became known as an attractive investment alternative that satisfied the conditions of foreign corporate planners/risk analysts. And over the years, the government and the union have developed a symbiotic relationship based on the truth that the success of one is invariably the success of the other.

In 1972, the National Wages Council was established to advise the government on salary increases. This is a tripartite body with union, employer and government representation, charged with the responsibility of recommending salary increase guidelines for the government's consideration. The Council takes into consideration various factors — world economy, Singapore economy, inflation, productivity, industrial relations, competitive data — to arrive at a unanimous recommendation to the government. For the period 1978 to 1982, when the government's economic plans called for a restructuring of the manufacturing sector away from a labour-intensive mode, the Council recommended hefty salary increases to weed out the marginal labour-intensive industries of low added value so as to free labour for the capital- and technology-intensive industries whose production capacity and expansion were limited by a shortage of skilled labour.

How does Singapore's development fit in with the various economic development theories? I do not really have a good clear-cut answer.

With its small area and 2½ million population, plus the virtual absence of an agricultural sector, we are different from other ASEAN countries as can be seen from Annexure F.

Can these factors explain Singapore's success? Or would a centralized economy have brought better results?

I would suggest a "mind over matter" conclusion. To borrow a phrase from the Prime Minister:

"In the final analysis, whether a people organized together as a nation in a defined geographical area make the grade or otherwise, must depend on the quality of the people themselves and the mettle of their leadership." And in the words of Dr Goh: "What we have done seems to be not significantly different from other people's experiences — what is different is that we have done it more consistently and with greater integrity."

An appropriate sum-up would be:

- A strong, dynamic, forward-looking, honest political leadership that enjoys the confidence of the trade union movement .... 25 %
- An efficient/effective and honest civil service .... 20 %
- A supportive/responsive population .... 20 %
- A favourable external environment .... 35 %

ANNEXURE A

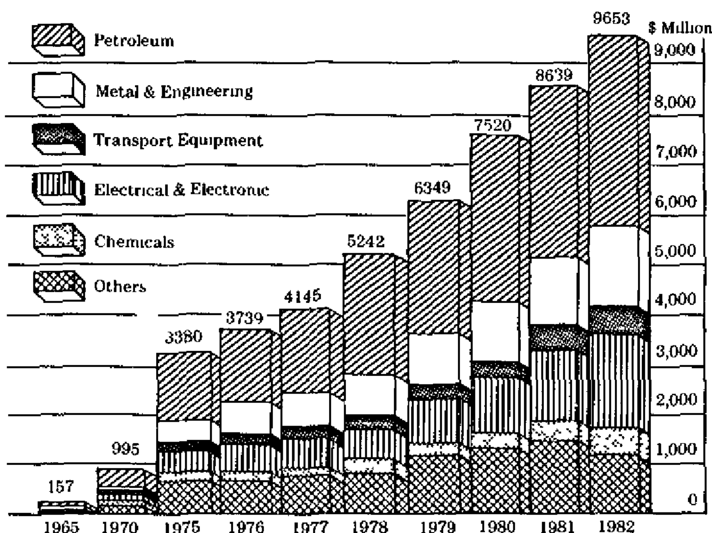
	Per Capita Income (US $) *1982*		*Per Capita Income* (US $) *1982*
United States	12 820 (1981)	South Korea	1 671
Canada	11 400 (1981)	Thailand	749
Australia	6 564	Philippines	731
Japan	9 008	Indonesia	609
New Zealand	7 022		
		Pakistan	338
Singapore	5 302	Sri Lanka	284
Hong Kong	4 801	India	260
Taiwan	2 334	Burma	181
Malaysia	1 860		

ANNEXURE A(1)
Standards of Living

	1982
o Persons per radio set	4
o Persons per television set	5
o Persons per doctor	1 100
o Persons per dentist	4 800
o Persons per government hospital bed	270
o Persons per telephone	2
o Pupils per teacher	20
o Pupils per school	989
o Persons per car	13

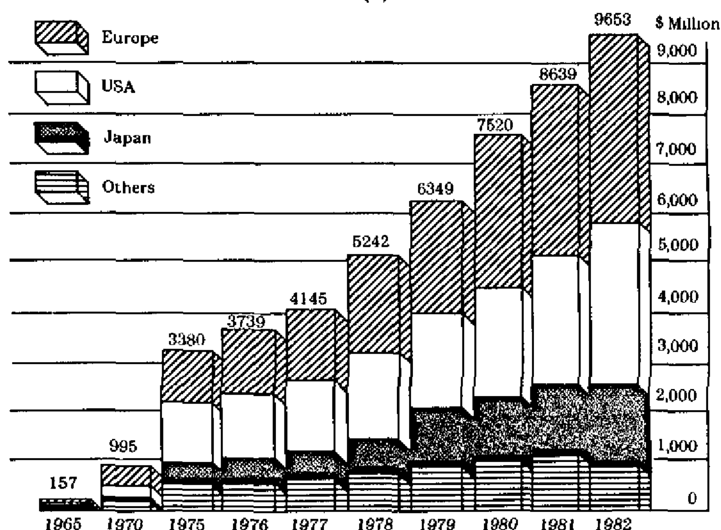
ANNEXURE B

Foreign Investment in Manufacturing by Industry in Terms of Gross Fixed Assets 1965, 1970, 1975 - 1982



ANNEXURE B(1)

Foreign Investment in Manufacturing by Major Region in Terms of Gross Fixed Assets 1965, 1970, 1975 - 1982



ANNEXURE C

Education

Year	*Primary*	*Secondary*	*Technical*	*University*
1967	368 654	144 448	1 752	13 005
1970	363 518	145 740	4 727	13 683
1975	328 401	176 224	9 830	18 501
1980	298 956	173 181	12 543	22 511
1981	288 622	175 460	13 001	24 156

ANNEXURE D

Contribution of Singapore Investment* in Manufacturing 1975–1981

	PERCENTAGE OF TOTAL						
	1975	1976	1977	1978	1979	1980	1981
No. of Establishments	78,0	78,0	77,2	78,3	76,1	75,1	73,9
No. of Workers	48,0	46,1	45,5	47,5	42,5	41,6	41,5
Output	28,7	26,9	26,6	28,5	26,2	26,3	24,0
Value Added	37,3	35,9	34,8	36,6	32,7	32,6	32,3
Total Sales	28,2	26,6	27,0	28,2	26,1	26,1	24,1
Direct Exports	15,9	15,3	15,5	16,3	14,8	15,3	13,2
Capital Expenditure	35,4	33,4	32,6	30,2	26,9	25,4	28,2

*Includes establishments with more than 50 % Singapore equity.

Source: Department of Statistics.

ANNEXURE E

Industrial Stoppages

Year	*No. of Stoppages*	*Workers Involved*	*Man Days Lost*
1967	10	4 491	41 322
1968	4	172	11 447
1969	—	—	8 512
1970	5	1 749	2 514
1971	2	1 380	5 449
1972	10	3 168	18 233
1973	5	1 312	2 295
1974	10	1 901	5 380
1975	7	1 865	4 853
1976	4	1 576	3 193
1977	1	406	1 011
1978			
1979			
1980			
1981	Continuing labour peace/stability		
1982			
1983			
1984			

ANNEXURE F

% Distribution of GDP (1980)

Country	*Agriculture*	*Industry/ Manufacturing*	*Services*	*1982 Per Capita GDP US $*
Singapore	1	37	62	5 302
Hong Kong	2	31	67	4 801
Taiwan	9	45	45	2 334
Korea	16	41	43	1 671
Philippines	23	37	40	731
Malaysia	24	37	39	1 860
Thailand	25	29	46	749
Indonesia	26	42	32	609

Pierre Uri

World Economic Recovery: A Different Pattern from the Past

Mr Chairman, Ladies and Gentlemen, after the optimism of Count Lambsdorff and his all-out plea for all-out free trade, I may blue-pencil the very contrasting features of the present world situation. Then, if there are too many unanswered questions, I will try to offer some tentative answers and finally also some proposals for reforms which might make the world work better and the fruits of expansion be more equally distributed among the various countries.

The plusses in the present picture are clear. There is a recovery in the United States which is stronger and lasts longer than most experts expected. There is a certain progress of production in the industrialized world. And world trade, after it had for the first time since the war dropped from its continuous growth, has again taken a rising line, half of it being due to the absorption of goods from the rest of the world by the American trade deficit.

But the minuses are also there. Unemployment is still rising, the only industrial country which has been able to create enough jobs to reduce the rate of unemployment is the United States. And, mind you, I think that the way we calculate the rate of unemployment underestimates it, because we relate the figure to the total labour force including the self-employed, the farmers, the people in the public sector. And those are not the exposed ones. We should really relate the figure to the wage and salary earners outside the public sector, and then a rate of 10 per cent really means 15 per cent of the people who are threatened by unemployment.

The other unexpected feature is that contrary to all previous upswings in production, prices of raw materials including industrial ones are faltering, and this obviously makes the situation of the developing countries, which produce about half of those raw materials, even more difficult when they're cornered between depressed prices for what they sell and rising interest rates for what they have to borrow. And, finally, there's a fantastic imbalance in world trade, with the Americans approaching a $100 billion trade deficit and Japan, a $30 billion trade surplus. Probably Count Lambsdorff would agree with me that the pattern of world trade can't remain that way. There is a certain difficulty in reconciling complete free trade with such imbalances in

the world and such volatility of exchange rates; competition on long-term contracts can be completely distorted by the change of value of currencies and by the changes in surpluses or deficits. Who can still believe in automatic mechanisms to redress the balances, whether on a fixed exchange rate or through the change of prices by the floating ones? The imbalances are there and they seem to be increasing rather than reducing.

The unanswered question is, first, why has the recession lasted so long? I would never have expected, after all we learned in economics, that it could spread over a period of almost ten years, with just a small interruption in 1976, when different policies were followed jointly by all the industrialized countries, but all led to such disequilibrium, inflation, balance of payments deficits, that they very soon had to be reversed.

The recovery (and this may explain in part the behaviour of raw material prices) is a recovery in relation to last year, or the year before, but most of the countries which are now recovering had first experienced a drop. This has not been the case in Japan nor in France, but has been for the United States and even more so for Britain, so that several of those countries may not be at their highest historical level, such are the limits of the present recovery.

And thirdly, and that's my key question: why is the US recovery spreading in such a limited fashion? It's said to cause about one-third of the recovery in European countries; that doesn't mean much more than one point of growth. It certainly helps the few countries who are so directly geared to the American economy that, after a short time lag, they drop (or rise) with the US. Our friend from Singapore, who is going to address us tomorrow, could testify to that fact. This goes for South-East Asia, and in a much more limited fashion for some countries in Latin America. But the fall in industrial raw materials is really unprecedented. Usually, because the elasticity of primary production is less than the elasticity of manufacturing industry, when production picks up then the prices of raw materials soar up, and conversely, if production in industrialized countries is stagnant, that's enough for raw material prices to plunge. This time the reverse happens, probably because the recovery in industrialized countries is not really strong enough, and pressed by indebtedness, the primary producers have to sell at all costs, even if it's a losing proposition.

Tentative answers

The origin and the length of the crisis:

I'm not one who believes that the oil shock is enough to explain the spread in Europe of unemployment in all countries. After all, it could have been, because of the loss it entailed, an opportunity to work more and make up for that loss. In my view, what we did was to mistake what was clearly a cost-pushed inflation for a demand-pulled one. In one country after the other, instead of explaining clearly that the increase in oil prices was a loss and could

not be made up for in wages or nominal incomes, we applied the restrictive policy of credit-squeezes, reduction in public spending, increase of taxes. And this again goes on with the way we are fighting inflation. To me that's a very key issue.

Inflation can be cost-pushed, it can be demand-pulled. Instead of considering the various elements which can or cannot be compensated in nominal incomes, we are really using round-about methods which somehow stab the growth potential in the back. The orthodox methods, there's no question that they are quite effective; but whether they act directly on prices or only through a reduction of activity, or of investment and an increase in unemployment, that's the key question. There are enough experiences in this world (and I must say I had my own experiences having to conceive the halt of inflation after the war in France and again being behind the stabilization scheme in 1958) to show that if the problem is well handled then there is the possibility of reducing inflation even faster than we do now, without endangering growth and the creation of jobs. But people have to be addressed in very clear and simple terms. An increase of import prices or a reduction of a trade deficit which reduces the goods and services available, or an increase of taxes, or an increase of social security contributions, can't be made up for in wages, and people have to be told this in so many words rather than by trying to reduce their claims by making them unemployed. If indeed the money goes to people outside, or to the public services, or to beneficiaries or social allowances, clearly it cannot be distributed twice. It seems to me that in most of our countries the source of inflation is that we have not said clearly that import prices were a loss. Probably in this country, if you will allow this interference with internal affairs, the fact that the price of the dollar rose and of course the import prices rose, may be the real reason for inflation: the impossibility of compensating for that in real incomes through an increase of nominal incomes has not been put any more clearly than in 1973, yet the spiral goes on.

Of course, in the mass of unemployment there are the structural adjustments and we all say that we're going through a revolution. It is perfectly true that computerization changes the processes of industry, and may soon extend even to the most classical forms of services, let's say banking, insurance, and maybe the distributive trade. But after all, structural adjustments may have positive effects, and they can be achieved in full employment. If I take the example of practically all European countries since the war, they went through fantastic revolutions, reducing by three-quarters the number of people in agriculture, changing completely the share of export in their national product, or the direction of those exports, or the content of those exports, and it all was done within the framework of full employment. Thus the reasons must be different, and again I think it's the way we fight inflation which should be changed to an understanding and a consensus.

It's important also that people should realize that it's not industry anymore that is going to create the jobs. Industry goes through a maximum of employment and then its share diminishes, and it's because this is not recognized everywhere that we are prone to protectionism because we don't realize that the jobs have to be created elsewhere. True enough, Silicon valleys do create jobs, and they make the entire economy more competitive, but it's only a drop in the ocean of new jobs which have been created in the United States. Let's look how they have been created. They've been created, let's face it, and this is the case in every country, in the sheltered sectors like building, transport, trade and the services, where foreign competition can only take the form of foreign firms having to come on the spot, and they are not destructive of jobs. And it's important that this should be understood: otherwise if people still believe that they can preserve all the jobs in industry, or even create some, . . . then the tendency to protectionism will be all the greater.

Now this might open a parenthesis. Let's look at the relation between a shorter work week and the creation of jobs. I wouldn't have such a negative judgement as Count Lambsdorff, I will only say that this cannot be done without looking at the costs. It's only if it can be done without cost that the reduction of the working week can serve, not to work less, but to work more, not individually, but for the body of the people. In America, in the distributing trade, the shops remain open much longer than in Europe, or maybe here. There are two shifts, from 8 to 2 and 2 to 8. This is no hardship. Working by shifts shouldn't be considered as a curse as though it were always night shifts. And this does answer needs and does create jobs and has the advantage of reducing costs because the fixed equipment can be better used over the day, over the week, over the year. But if we disregard the cost element, then I would agree with Count Lambsdorff—it might very well be counter-productive.

Now, my third point is: how is it that the American recovery doesn't spread wider and faster? It's very nice to speak about the market mechanism but there are counter-mechanisms at work, and everything at least in finance has been the reverse of what should be normally expected. The supply of money increases, there are more funds to lend, the interest rate should go down. Not at all, in the US it goes up. When there is growth in the economy, the stock market should go up; in the United States it hesitates or even falters. When there is both a budget and trade deficit, the currency should be threatened, not at all—in the US case the dollar soars up. And the key to that is that the Federal Reserve is known to have the power to reverse the trend, and US intervention is anticipated, to which should be added the belief that expansion cannot go on without the threat of inflation. But, of course, this leads to a unique situation—the budget deficit, which has certainly contributed to creating growth after the self-imposed recession of the first

two years of the Reagan Administration, can be borne without inflation — at least without a rise in prices — since a trade deficit is a form of inflation. And, since commodities are quoted in dollars, the Americans are the only ones for whom the prices remain constant, for the others they go up. The financing comes largely from abroad. The American rate of saving, as Count Lambsdorff reminded us, is very low, it's about 5 per cent, whereas both the Germans and the French are alarmed if our rate of personal savings is below 15 per cent. But this only has to cover half the sum of investment and the budget deficit. The rest is a lot of money coming in. The result is that the US economy becomes uncompetitive on the world market, but at the same time, because it attracts capital, it makes others over-competitive, as the flow of capital from one country to another depresses the exchange rate and facilitates the export trade. This is particularly used as a skillful manoeuvre by Japan.

On the other hand, how come the rate of interest in the United States doesn't stop investment? The truth is that the rate of interest fully applies to the non-residents — they get the full benefit of the increased rate, particularly, as Count Lambsdorff reminded us, after the elimination of the withholding tax, which is going to make the imbalances even worse. The other countries have to follow suit, and this is one of the reasons why we don't grow faster. But in the US one shouldn't forget the element of deductibility of interest, both for the private individuals and for business firms. Let's make a quick calculation: the rate of interest has jumped in the States to 13 per cent, the rate of inflation being below 5, which means a real interest rate, unprecedented in history, of more than 8 per cent. How could the firms pay it? The truth is, it's profitable; the nominal interest rate is reduced for them by the tax-deductibility from 13 down to 6½ per cent, with inflation at 5 per cent, the real interest rate after tax is only 1,5 which is below the long-term trend of a real interest rate of 3 per cent. And this goes, I think, a long way in explaining why this double feature of very high interest rates, which mostly apply to non-residents and force the other countries to follow suit, and the deductibility of interest both for households and for firms, makes it possible for Americans to expand somewhat at the expense of the rest of the world.

A course of action

Now, what could be a course of action which would make it possible for other industrialized countries and also for the Third World to recapture the rate of growth and the creation of jobs which only the Americans have been able to achieve? Regional groupings should help. I have in mind in particular the case of Europe, where, if we acted together, the external constraints could be reduced because infra-community trade represents roughly for each of the member countries about 50 per cent of its overall trade. If we move together the imbalances would be almost eliminated or they would become marginal.

But the question is whether, to make that moving together possible, we shouldn't make some progress in the European monetary system. It's very good that we have an area of comparatively stable exchange rates for the reasons which were mentioned by Count Lambsdorff, that is, if the rates of exchange are very volatile, then competition in long-term contracts is completely distorted. The Belgians bought American planes when the dollar was cheap and they had to pay for them when the dollar had doubled: they might have chosen other planes if they'd been able to think in terms of the future rate of exchange and, of course, planning is very difficult if you don't know what the conditions of competition are going to be in the future, I mean the simple planning of long-term investment by firms.

In the case of Europe, our system is incomplete because it remains exposed to external shocks. Roughly speaking, if the dollar goes down, the mark goes up, and this creates some financial tensions in the European monetary system. Conversely, if the dollar goes up, the mark is somewhat undervalued in comparison, and this creates commercial disequilibrium. In both cases we lose. A group of European economists once proposed that the system should be completed by an equalization fund that would somewhat counter-balance the effects of the inflows and the outflows of capital by financing the outflows, and by sterilizing the inflow, so that the rate of exchange would be more geared to the fundamentals than to the vagaries of capital movements provoked by third parties. This would then make it possible to transform the ECU into a reserve currency which might be very attractive to outsiders because a basket of currencies is definitely more stable than a single currency like the dollar, powerful as it may be, and moreover it would be based on the commercial power of the largest trader in world affairs. This might also eliminate some of the features which I regret to see develop in the Common Market. It was based on the assumption that the fastest developing country in Europe would pull the others behind it, but since the depression, on the contrary, our countries have largely blocked and dragged each other down.

But we also have to do something about the international monetary system. The floating exchange rates have not responded to the promises which some theoreticians had seen in them. Right now they are rather based on unco-ordinated interest rates than on the fundamentals of the economic and the competitive and the commercial situation. After all, Bretton Woods wanted to base more stable exchange rates on the current account, the current balances in every country, i.e. the fundamentals of equilibrium or disequilibrium.

There is another thing which we now have to do. We have created the special drawing rights as, let's say, a substitute for the dollar. This, at first sight looks reasonable: why should a national currency become the international standard of value with all its vagaries. They offered also to some

extent a substitute for gold because, as this country knows better than anyone else, gold is linked to all kinds of speculation, it went up with oil, it goes down when the dollar goes up. This doesn't seem to respond exactly to what Ricardo expected of the gold standard as the regulatory force in the working of the economy.

If we look at the special drawing rights, a very curious fact is revealed. Every now and then there's a decision to create a fixed amount over a fixed period, disregarding the growth of world trade, whether it accelerates or slows down, disregarding the other sources of liquidity, whether they be gold, or more likely, dollars. Thus it may not be enough, or it may be too much, with an inflationary impact. As to the distribution, it is well-known that it goes according to the quotas in the IMF, i.e. the richest get the largest share. This is something which I consider quite abnormal. Developed countries have to earn their reserves, and the only windfall which they used to enjoy is every now and then the revaluation of gold, otherwise reserves have to be earned. The proper use of those drawing rights should be to try and stabilize the world economy. First, there should be a rational rule for their creation, based on a binomial formula. A certain increase, a moderate increase, each year according to what is expected to be the growth of international trade with a proviso that there are other sources of liquidity, then a brake should be applied. But the second element would be a plus or minus one according to what the trend of primary products is not only because this is absolutely essential for primary producers, otherwise they can't really have any continuous development, but also because this is the best overall indicator of the situation in the world, whether it's deflationary or expansionary. The idea would be that those drawing rights would be used to offset the loss of value of exports of primary products, on prices, on values or on both, and usually both go together. The use should then be that the primary producers in a time of slack go on producing for storage, so that if there is a pick-up in the world economy, the users will avoid the sudden explosion of prices which we experience every now and then. In other words, both consumers and producers would benefit. But most important of all, this will enable the primary producers to maintain their demand for the products of industry which in turn would maintain the level of prices and of demand for the primary products, so that we should have a kind of virtuous circle instead of all the disorders in the world economy. This, in my view, would be a decisive step towards the stability of growth, towards growth reconciled with stability and, most important of all, towards the diffusion of progress for the benefit of mankind.

Book Reviews

DEZINFORMATZIA: ACTIVE MEASURES IN SOVIET STRATEGY — Richard H. Schultz and Roy Godson.
Washington: Pergamon. Brasey's, 1984, 210 pp.

This is a well-documented and up-to-date account of Soviet "active measures", the term denoting a wide spectrum of political and psychological techniques used by the Soviet Union. The book consists of an introduction, a chapter on Soviet perspectives and strategy (including foreign policy perspectives, strategy and bureaucracy and overt propaganda and covert political techniques); a chapter on Soviet overt propaganda themes 1960–1980 (including research and design, general propaganda themes, descriptive analysis of Soviet foreign propaganda themes directed against the US and NATO, longitudinal analysis of Soviet propaganda themes, and comparative longitudinal analysis); a chapter on Soviet covert political techniques 1960–1980 (including international front organisations, agents of influence and Soviet forgeries); a chapter containing interviews with two former Soviet-bloc intelligence officers; a conclusion and glossary of a number of terms.

Although the theme as such, namely the use of psychological and political techniques by the Soviet Union is no novel concept, the book under review does succeed in drawing together certain strands and presenting a broad overview of the Soviet use of these techniques, covering a substantial time-span. As stated in the preface, the book is primarily concerned with an analysis of Soviet overt and covert propaganda directed against the United States, but it does contain sufficient illumination of underlying principles to give this book a broader application.

Although some analysis, using for instance graphs to illustrate the percentage of Western-related commentary in the "International Review", is undertaken, the book does tend to be more of a factual account of Soviet activities in this field. It nevertheless contains some very interesting conclusions. On page 101, it is for instance stated that: "While the United States persistently was characterized as the major threat to world peace, careful analysis of Soviet propaganda indicates that in reality the Kremlin did not perceive any direct threat or challenge to its security interests emanating from alleged US aggressiveness and militarism. The incongruity between Soviet propaganda and Moscow's actual threat perception may be explained partially by considering the tactical foreign policy objectives of the Kremlin — especially the desire to weaken the Western alliance — rather than its immediate security interests". The increasing flexibility of Soviet propaganda as pointed out in the book, is also important, as this has enabled the Soviets to respond rapidly to critical issues and events of the day.

The most illuminating part of the book is no doubt the section on Soviet

forgeries (pp. 149–157), since it provides an overview of some of the lesser-known covert political techniques used by the Soviet Union.

As a broad overview, with specific reference to Soviet propaganda directed against the United States, the book is of great importance. The more serious student may look for more detail, more case-studies and more conclusions, which would certainly include more guide-lines concerning countries subjected to Soviet overt and covert propaganda and political techniques. Also, disinformation regarding conditions in the Soviet Union itself would obviously be an important point of departure in the formulation of counter-strategies to Soviet disinformation. What is however emphasized, is the fact that the Soviet Union is willing to use a broad spectrum of people and organisations to further its propaganda aims in Western countries and it does point out how easily the individual can be enmeshed in these activities as a Soviet "agent of influence". The same would apply to the international front organizations that originated with the Comintern in the 1920s, and where individuals (once described as "useful idiots") are often unwittingly used to further Soviet aims.

Overall, the book demonstrates the wide scope, flexibility and increased sophistication of the Soviet propaganda machine. Awareness of this is the first step in the formulation of a counter-strategy: for South Africa, where the Soviet threat is perceived to be the major threat facing the country and taking into account Soviet involvement in spying activities (the Gerhardt case); Soviet support to the ANC and SWAPO; Soviet involvement in Angola and Mozambique; and the Soviet psychological and political campaign regarding South Africa's internal and regional policies, the book should be of particular importance.

Reviewed by: Prof M. Hough
Director: Institute for Strategic Studies, University of Pretoria

LEXICON OF SOVIET POLITICAL TERMS — Ilya Zemtsov.
Fairfax, Virginia: Hero Books, 1984,279pp. $14.95, paperback

When assessing an unusual book which happens to arrive on one's desk, it sometimes helps to identify the publisher's ideological standpoint and area of expertise as well as those of the writer concerned. Such was my immediate reaction when confronted with Dr Ilya Zemstov's *Lexicon of Soviet Political Terms*, published by Hero Books, Fairfax, Va. in January 1985, the cover of which depicts in startling red, white and black a hand manipulating marionette strings against a background of Russian-style onion domes.

HERO stands for Historical Evaluation and Research Organization. It is a division of Data Memory Systems Inc. Its founder and frequent contributor, Trevor N. Dupuy, is a United States Colonel (Retired) who has maintained close links with the United States Department of Defense. Hero's booklist

suggests a particular concern with military matters both past and present, American and worldwide, but several titles on Soviet affairs also appear, which brings us to Ilya Zemtsov.

Zemtsov was born in Baku in 1938 and lived in the USSR until 1973 when he left it for Israel because "he could not abide the totalitarian system of the Soviets and the effects it had on a citizen's intellect" (back cover of book).

His academic qualifications are in philosophy and sociology and his career in the Soviet Union was chiefly spent in institutions of higher learning, apart from a period of unspecified length as Director of the Sociological Information Centre in his native Baku, capital of the Azerbaijani SSR where, one suspects, he first became aware of what George Orwell termed "doublespeak". Since 1973 Dr Zemtsov has lived in Israel and is now director of the Israel Research Institute of Contemporary Society although his interest in the USSR has continued and, apart from the volume here under review, he has recently published books on Andropov and Chernenko.

Zemtsov's central thesis is that:

> "The Soviet language constitutes a multiplicity of psychological snares for the spiritual entrapment of the individual" (p. xv) and that ". . . the liberation of the individual from Communism — from its illusions and delusions — must begin with 'linguistic dissent', i.e. with liberation from the Soviet language" (p. xvi).

I think it is fair to alert the reader to Zemtsov's own use of emotive language from a Western point of view with his repetition of the word liberation and his use of words and expressions such as snares and "spiritual entanglement". A fundamental criticism of Dr Zemtsov's book, in fact, is that he nowhere suggests that the use of language for political manipulation is by no means confined to the communist world. An analysis of the speeches of President Reagan (to whom, incidentally, the book is dedicated) will uncover a similar employment of emotive and ambiguous language. For example, in his second inaugural address on 21 January 1985: "America must remain freedom's staunchest friend . . ." or again when he calls for the new administration to be remembered for its "courageous support" of "the struggle for individual liberty, self-government, and free enterprise [which] turned the tide of history away from totalitarian darkness into the warm sunlight of human freedom". Much of the metaphor and some of the actual words could have been taken directly from the speeches of former Soviet rulers, though the style is too ebullient for the present Soviet leadership.

Within our own South African society moreover, the use of language for the purposes of ideological manipulation is long-standing. A study of the South African connotations of words such as "liberal" or "free enterprise" would bear this out. In fact it's probably true to say that most governments, particularly those under real or imaginary threat, tend to resort to these techniques. What is interesting about the USSR is more the extent to which this

has occurred than the fact of its occurrence.

Zemtsov's intentions for his book are (1) that it should provide an insight into the underlying meaning of Soviet political propaganda; (2) that it should serve as a "guide to Soviet society" by analysing terms in current use and (3) that it should lead the initiated through "the Soviet Orwellian Alteration of the Russian language". He analyzes 187 key terms and phrases, some politico-ideological, others connected with everyday life and the means of production and still others being traditional Russian evaluative words which have changed their meaning, eg. "notorious" or "desperate".

His work is thorough, and extremely interesting to those of us who are perforce ignorant of the Soviet Union. Each entry is in English, followed by a transliteration of the Russian equivalent, an explanation of the concept or article and finally by a couple of extracts from Soviet writings which include the relevant word or phrase. A few examples from the section under the letter D, for instance, range from dacha, through democratic centralism which Dr Zemtsov suggests we might call totalitarianism; direct dialling, which is not what you might think but, in the USSR, a telephone system reserved for top bureaucrats which bypasses the municipal network; and ending with dregs, as in "emigré nationalistic dregs" (p. 88).

The strengths of this book lie in the author's extensive acquaintance with the highways and byways of Soviet life, though it is highly unlikely that he has returned to the USSR since he left in 1973. He writes well, colourfully even, (see for example his two-page entry on the word queue) and with considerable insight into the inner circles of Soviet society.

The book's weakness lies, as I have already suggested, in its unmitigated hostility to all things Soviet. Dr Zemtsov's hostility is no doubt understandable and there are many well or lesser-known aspects of the Soviet Union in respect of which he performs a useful function in unveiling in all their unpleasantness. Nevertheless, his overall picture of Soviet life is a bleak and single-dimensional one and may serve in some quarters only to reinforce pre-existing unhelpful prejudices. We in South Africa require a closer knowledge of the USSR in view of the interest our region apparently holds for Moscow. We will not, however, do so constructively unless we are prepared to examine the Soviet Union in an unprejudiced and detached fashion.

Reviewed by: Dr Sara Pienaar
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