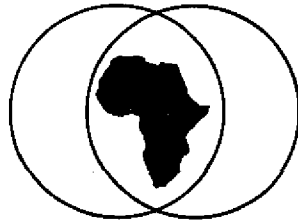


THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS



DIE SUID-AFRIKAANSE INSTITUUT VAN INTERNASIONALE AANGELEENTHEDE

NEWSLETTER

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Vol. 7 No. 2.

1975

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2017 Braamfontein

June, 1975

DIRECTOR'S NOTES

The first article of this issue of the *Newsletter* is based on an address by Dr. Peter Rogge to an Institute meeting at Jan Smuts House on 13 March, 1975. Dr. Rogge is head of PROGNOSE, the European Centre for Applied Economic Research in Basel, Switzerland, and he visited South Africa in March as the guest of several South African organisations, including the Institute. The other organisations involved were the University of South Africa, Council for Scientific and Industrial Research, Industrial Development Corporation, Bureau of Economic Research Stellenbosch University, Retecon (Pty) Limited and Siemens (Pty) Limited, and the Institute was very pleased to be associated with them in sponsoring this highly successful and fruitful visit of Dr. Rogge.

Mr. Max Kühne of the Swiss Bank Corporation, who is a Board Member of PROGNOSE, also addressed the meeting on 13 March, and an article by him follows that of Dr. Rogge.

The Symposium on "South Africa in the World : The Realities", about which all members have been informed, will be held in Pretoria on 6 and 7 June. A report on the Symposium will be included in the next *Newsletter*, and it is hoped that a publication including the main papers will be available as soon as possible subsequently.

Corporate Membership

It is a great pleasure to welcome the following new Corporate Members which have joined the Institute since the last issue of the *Newsletter*.

S.A. Board Mills Ltd.
Huletts Corporation Ltd.
Gledhow Sugar Co. Ltd.
Reynolds Bros. Ltd.

We are also pleased to be able to record that the following two existing Corporate Members have recently increased their annual subscription:

Barlow Rand Ltd. (which has also made a contribution to the
Institute's Development Fund).
C.G. Smith and Co. Ltd.

John Barratt
Jan Smuts House
4 June, 1975

S.A.I.I.A.

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CHANGES IN THE INDUSTRIAL STRUCTURE OF EUROPE⁺

Dr. Peter Rogge

It is hoped that a discussion of developments in Western Europe will be of interest to a South African audience, for three reasons:

- (1) In spite of all its present economic troubles, Western Europe continues to be one of the economic centres of the world and continues to exercise a direct and indirect influence upon other countries, no matter where they are.
- (2) Changes in the economic structure of Western Europe offer people from other countries - be it as investors, suppliers, or even as buyers - increasing chances for an active economic participation in Europe.
- (3) This is probably the most important point. Changes in industry in Western Europe carry with them a very direct meaning to countries such as South Africa, because of a new international pattern of the division of labour, which is developing or evolving, and which is of direct importance to Africa and other continents.

I would therefore suggest that we take a look at our subject, "Changes in the Industrial Structure of Europe", in terms of three aspects: the changes over time, i.e. the business cycle; the changes in the structure of industries; and, at a little more length, changes in the structure between different countries, i.e. where is industry going to, where is industry leaving.

When one comes from Europe these days, everybody asks one about the present recession, the present business slump that there is in Europe, and there can be no doubt that we in Europe are experiencing what is certainly the deepest investment slump, or the deepest investment low, since the last war. This downturn began around 1970 when the growth rates of industrial investment in Europe began to decelerate in practically all countries. More recently, an additional momentum to this negative trend has been added, namely the abrupt turn-around of private residential building in Western Europe. In countries such as Switzerland, or in the Federal Republic of Germany and the Netherlands, there is not only an observed stoppage in the growth of residential buildings, but residential building has altogether effectively collapsed.

The causes for the current investment recession in Western Europe are not difficult to identify. They are, however, very difficult to correct. First of all, and this, I think, is a very important observation to make, Western Europe has only recently entered a stage of economic development which has long been known to the United States. This is a stage characterized by high levels of saturation in stocks of durable consumer goods, e.g. T.V. sets, deep freezers, furniture, automobiles, etc., as well as in capital goods. One can take whatever indicators one wants, like steelblast furnaces, public utilities, etc., - if one links these to the population of Western Europe, one will find that, after 20 years of a hectic satisfying of a pent-up demand, Europe has now, happily and unhappily at the same time, reached a stage where further economic growth tends to be senseless or

⁺ Edited transcript from the tape recording of an address to the Witwatersrand Branch of the Institute on 13 March, 1975.

even a nuisance for everybody.

This phenomenon is also aggravated by the strange prospect that Europe, for the first time in its entire industrial history, is faced with a stagnating or decreasing population, and this development has only recently been discovered by governments and industry experts. This is surprising, but it is a fact. Equally surprising are the absolute figures emanating from this stop in population growth. For instance, when one takes the automobile market of a country like Germany one sees that, even under aggressive assumptions on the future use of automobiles, total annual sales in West Germany have already passed their peak. At the beginning of this decade a little over 2 million automobiles were sold per year, and this will probably level off to 1.5 million automobiles per year at the beginning of the 1980's. Therefore, we are coming back to market volumes that we were not used to any more. Early in the 1950's, in 1955 for example, 400 000 automobiles were sold in Germany, 15 years later (1970) five times as much. But looking into the future, five years hence, one sees this volume decreasing, because of a saturation of the market, in the first place, and, secondly, because the population is not growing; rather it is even decreasing.

This example of the automobile industry calls for two additional remarks. One is that a saturated market is a market which is dominated by what the economist calls "the replacement demand" - i.e. substituting the older vehicle by a new one. This "replacement demand", in contrast to first demand, is highly vulnerable and volatile. For example, people who have never had an automobile, will normally set out to purchase their first automobile once they have saved a sufficient amount no matter whether the times are good or not good. But, once they have their automobile, they will be strongly influenced by passing moods of pessimism, or optimism, and therefore, suddenly these markets grow or shrink. This is one of the principle reasons for the resurgence of the business cycle in Western Europe, and problems associated with such cycles.

Secondly, and this point we will return to later, one sees an increased import competition on many of the European markets on account of cost factors. In former years, early in the 50's, the German automobile industry could rest assured that almost 100% of the German market went to them. Today the domestic market share has been reduced to a much lower level, due primarily to cost factors. It is this combination of a levelling off of market growth, plus the market instability, that we have in Europe today. Together with an increased pace of cost inflation also being experienced, this will prove to be very negative to new investment and new industry in Europe.

There are many reasons for the cost inflation we are having in Europe. It results from a scarcity of skilled labour, a scarcity of raw materials; it results from the overproportionate growth of money volumes that the National Banks allowed in many countries; it is the inflationary mentality on the part of producers and consumers alike. However, whatever the reasons for cost inflation are, there can be no doubt that this inflation has seriously cut back the propensity to invest in new industry, has most seriously cut back the entrepreneurial spirit of European investors.

As assessment of current economic troubles in Western Europe would be incomplete, if one were not to mention the strange effect that inflation has

on the consumption and production structures in Europe. To illustrate, with the decline in the purchasing power of money, which was not offset by the interest rates paid on savings since the end of the 60's, it has become increasingly popular on the continent to acquire debtor positions by borrowing money for building purposes. This game, and for some people this has become quite a game, attained crazy proportions. In Switzerland, for instance, mortgage interest rates were kept by the government at a comfortable 6%, at the same time when the inflationary rate was 10-12%. This induced people to borrow money to invest in what has come to be called beton gold, cement gold, in contrast to the real gold you are producing in South Africa. Too many apartments, too many houses were built as a result of this inflationary overstructuring of consumption. In Switzerland we build approximately 85 000 apartments a year, but we only need 40 000; in Germany they build approximately 800 000 apartments per year, where they only need about 400 000 apartments. The rest are offered on the market and nobody wants them. So obviously supply and demand have come absurdly out of step on account of the inflation. It is quite clear that this crazy overbuilding must have a direct effect upon investment in Europe, because a large part of investment is associated with building, and this has gone down to zero.

Nevertheless, when one looks at investment in Europe over the longer range, one finds that investment will still be growing; new capital will be put into factories and plants because of change. Change is the decisive factor. Many of the key factors upon which industry in Europe has been built over the last 25 years are now changing and changing quickly. Let us look at a few of these factors.

Firstly, the population growth has virtually come to a standstill in most countries of Europe, and, with population stagnating, it is only an increase in productivity which can bring about another increase in services and products. This increase in productivity can only be brought about by newer, more modern, more automated, capital-intensive production facilities.

Secondly, the cost of labour, which has recently outpaced the cost of capital on the continent, calls for an additional automation in many branches of industry. A strong example for this is the textile industry. In former years, the textile industry was a very labour intensive industry. Today, because the cost of labour has become so high, it is a highly automated, highly mechanised, highly capital-intensive industry, and the same is in a way true in construction and banking.

Thirdly, we have had the changes in the prices of raw materials over the last 24 months, which have had a deep impact on the regional structure of West European industry, as well as an impact on the branch structure. Some industries, e.g. automobiles, mineral oil have been severely curtailed by the price rises, whereas other industries, like paper, glass, and even the lumber and coal mining industry, are benefiting today. We have to reconsider if these industries are large enough, or if the mineral oil industry, or the plastics industry, have not grown to outside proportions.

Along with these changes in the raw material price structures, have come the changes which have taken place in the interantional money system, and we shall return to this point a little later on. Here we should merely note that the change in exchange rates of currencies - between the Swiss

Frank, the Pound, the German Mark, etc., - have had far-reaching effects upon the geographical distribution of industrial locations, because certain locations have now become very expensive, while others have become very economical and cheap. This is certain to leave its mark upon the face of not only Europe, but upon the distribution of industry over the map of the world.

Now let me very briefly say a few words in regard to the industrial structures of the European countries, i.e. the set-up of industries with emphasis upon specific branches. It is interesting to note that one single characteristic stands out, above all others, in industrial development in Western Europe over the last 25 years. This is a growing similarity in the economic structure of individual countries, a growing similarity between the different countries in Europe. In this regard the diminishing importance of the agricultural sector plays a role in all countries of Western Europe, and at the same time there is a heavy industrialization of rural or agricultural areas. If we consider countries such as the Netherlands or Belgium, the chemical industry has long played an inferior role and was never important. In recent years, however, chemical plants have been installed, not with a view towards the internal markets, but with a view towards the wider Europe, and a huge capacity has been installed in these countries. In France, for instance, which, for a long time had a negligible chemical industry, investment in this industry has grown to the proportion that we know in Germany. At the same time, German chemical industry has moved strongly into France. Similar trends can be observed in the steel industry. Italy, the Netherlands and France have all been installing large production capacity, with a view towards a wider European market.

If you go down the line and examine special machinery groups and special industrial branches, you will invariably find that European economies over the last few years have become more and more alike; they have not developed in a fashion where one economy concentrated or specialized in one area, but rather they have become more and more alike.

At this point I should like to turn to the more problematic aspects of industrial growth in Western Europe, which may have a direct effect upon the rest of the world. I should like to take West Germany as an example, and perhaps also Switzerland, and no longer talk about Europe in general.

When we look at the German economy today, we might get the impression that this country's economy is not destructable. No other industrial nation of the world has revalued its currency as massively as the Germans have and still maintained a large surplus, not only in trade, but on the balance of payments; no other nation in the world has increased its wages by similar levels as in Germany, while still keeping the inflation at a relatively low rate of only 7%; no other nation in the rest of the world has increased its monetary reserves as the Germans have, and only two other nations, namely the United States and Switzerland, have a per capita income surpassing that of Germany, leaving aside the oil countries, of course. This is the view one gets, when looking at statistics.

The other view one gets from industrialists in Germany, when one looks at their reports. This reveals, for instance, that a large automobile factory, like Volkswagen, is in grave trouble today due to cost increases. It is actively looking for locations of production in other parts of the world:

Brazil, the United States and maybe even South Africa. They are in trouble even in this country which proves to be so strong in exports, and much the same is true when you look at some other export branches of Germany industry, for instance, the electric or machinery industry. Propelled by the high level of cost in Central Europe, more and more factories are looking to locations such as Brazil, Mexico, Algeria and the near East, for expansion. In Germany, what is done, of course, is to keep up the production, maintain the modernization of production plants, while expansion is going on elsewhere. I could quote to you the voices of many leading industrialists in Germany, who have recently said that in the future they will concentrate their expansion exports on other countries, not on Germany anymore.

This news shows that in Central Europe many economist and industrialists are worried, in spite of the record export performance of some of these countries. These worries centre around the question as to whether the share of export markets can in the future be maintained from European sources of supply. This is a very crucial question and, incidently, corresponding trends can be observed in the supplies to European markets where we see imports from low cost sources of supply growing everywhere; in textiles and clothing, in the leather and shoe industries, in the toy industry, household articles, office machines, in chinaware industry. Everywhere we see imports from other sources of supply growing in leaps and bounds. The reason is often that wages in Central Europe are very, very high when compared to wages in other parts of the world.

Thus it has become obvious to observers in Europe that the competitive positions of European industry have lately become a questionable and debatable matter. On the other hand, we still see persistent surpluses in the balance of payments, and, on the other hand, we see the problems of large industrial branches and a cutting back in these branches. The importance of these shifts in investment is by no means restricted to Central Europe itself; rather they must be interpreted as the manifestation of a far-reaching restructuring of industry on an international scale.

It seems as if the old countries of Western Europe will see their industrial structures reduced by entire branches of industry. They will be the old industries with which Europe started; the textile industry in England, the shoe industry, industries in Italy, etc. We are creating a position where some of these branches will walk out on us. It would clearly be a mistake to attribute this to abnormal forces such as the Arab oil price pressure or exchange rate fluctuations; what is behind this is a major shift in cost, productivity and price structures between the different countries of the world.

One of my arguments is that in some of these European countries we have had an increase in wages, which was not offset by an increase in productivity, but was rather aggravated by an increase of the exchange rate of money. This was true in Germany, Switzerland and Austria. In Germany the Labour Unit Cost, i.e. the hourly cost of labour as compared to its product (which is a measure for the competitiveness of a country) has increased in relation to the United States in the last three years by about 90%; in relation to the United Kingdom by about 40%; in relation to Japan by about 12%. The question is whether these dramatic shifts have been caused by speculative international capital movements, or if there are real economic reasons behind them.

We have tried, in a little statistical exercise, to compute the realistic exchange rates between currencies today, on the basis of a very simple economic argument. As you know, in the Bretton Woods Agreement the exchange rates were fixed back in the early fifties. If one works out from the assumption that these exchange rates, at that time, pretty well reflected the competitive strength of the European economy and if one then takes relative productivity growth and price trends in the countries concerned up to 1973, one arrives at theoretical exchange rates. If one does this little computation, one finds that recent exchange rates, between European currencies and other countries, are not so out of line with economic reason, but rather reflect in a surprising way the real economic situation of these countries. When you take a look at this, you see that over a period of at least 20 years some of the European currencies, including the German and Swiss currencies, have been highly undervalued, with the result that some industrial sectors have grown on the continent, which should not have been there had there been realistic exchange rates. Vice versa, this means that other countries, like South Africa, have been deprived of new investments by these same unrealistic exchange rates.

Therefore, an international structure of industry came about which can be described as such: some of the countries of Western Europe became over-industrialised, whereas some countries suffered from a corresponding under-industrialisation. Consequently today rather massive shifts are to be expected after this situation has been suddenly corrected. I am afraid that this new situation may come as a death sentence to the international competitiveness of some of the branches of industry in Western Europe. Let me here quote what one of the leading industrialists in Europe, Otto Wolff von Amerongen of Germany has recently said in a surprisingly frank statement a few months ago: "The enormous increase of labour costs, together with the rise in import prices, leads to a situation (as in Germany) where some kinds of industrial production can no longer be maintained in the highly industrialised countries." He continues: "We must seriously consider if it is economically sound to produce goods which are based upon imports of progressively expensive raw materials, which are produced with the help of almost 3 million foreign workers, on a level of wages and social cost which is one of the highest in the world, and which are then largely exported again. A long-run process will unfold which will make for an adjustment of the international division of labour to changed conditions. For us (in Western Europe) this means specialisation in highly qualified technically perfect production on the one hand, and relocation of production lines with less qualified manpower to countries with lower wage levels than we have them in Central Europe."

It is an important fact, which applies more widely than in Europe itself, that shifts in the international price, productivity and cost structure which have taken place in recent years, have seriously undermined the existence of a number of industrial branches in their present locations in the industrialised countries. These are, generally speaking, industrial branches with mass production, with personnel on a low-to-medium level of qualification, industries which cater to a price-elastic demand, which easily changes over to other sources of supply. More specifically, these are industries like the steel industry, parts of the aluminium industry, parts of the paper industry, parts of the road vehicle industry (those parts which are technically not top qualified), certain parts of the electric industry. We see, for instance, the production of electric

household apparatus moving out of the centre of Europe to other regions; we see the production of consumer electronics moving out of Europe to Asia and other regions; large sectors of textile and clothing moving out of their present location; and also leather and shoe industries, and even some centres of optical precision instruments industry. This is a long list and it is disquieting to some people in Europe, but it may be a chance for other countries.

In this regard, I would like to quote another author, namely the long-time correspondent of *The Financial Times* in Bonn. This man has very closely observed what is going on in the centre of Europe, and he has written in a recent book, called "German Business and the Economic Miracle", a paragraph which is pertinent and so correct. He writes: "In coming years West German companies are likely to step up their investment spending to developing countries to a proportion well above the current volume of barely 30% of all foreign investments. The developing countries offer potentially larger markets, many developing countries have their own raw material stocks, plus large and relatively cheap labour sources. To obtain large sales in Africa and South America, German companies recognise that they must develop manufacturing subsidiaries in these areas, and that potentially such subsidiaries can produce healthy rates of profits and sales growth. In the constant search for new markets and new ways of boosting foreign sales, the large German companies are now showing signs of taking greater interest in investment in South America and Africa." Concerning investment in Western Europe itself the same author concludes: "Currently quite a number of German companies are drawing up investment plans calling for a roughly even split between foreign and domestic expenditure. In the main, the domestic spending is concentrated on consolidation and rationalization, while the foreign trends are mainly accented for setting up new plants, new factories in other areas of the world." He continues: "A good number of German managers fear that the pace of production expansion in Germany in coming years will not be able to rival possible rates in a good number of foreign areas, due to growing labour market tension in Western Europe. In consequence it is possible to suggest with a good deal of caution, that over the next ten years, a number of leading German companies may well spend more abroad, than in Germany itself, in the expansion of new production facilities."

We may add, that the words "German" and "Germany" in the above paragraph can in all instances be replaced by the words "West European" and "West Europe". We are dealing with Western European problems, and changes encompassing many countries outside Europe as well.

Let me close my remarks on this topic, by saying that Western Europe is presently at the brink of a major shake-up of its industries. The traditional picture that Europe presented, traditional patterns of production, traditional industries, traditional distribution of industries over the map of the world, all these traditional structures are crumbling today under the onslaught of inflationary pressures, under the onslaught of rising raw material prices, under the onslaught of declining productivity growth rates, and under stagnating markets in the old countries. It is obvious that making the necessary adjustments presents a very difficult task to all Europeans.

However, to add an optimistic note, in contrast to many pessimistic

observers, it is my firm impression that this task of restructuring may prove to be a new challenge to the old continent, a challenge that is sorely needed in a time when the old continent has long forgotten old inventive virtues that it once had. Europe in recent years has been in danger of stagnating, not only physically, but also psychologically, and this is apt to change. We find today that the old countries of Europe are taking a new look at themselves, and the old countries are finding, to their own surprise, that this look is directed, as it never was before, to the outside of Europe, to the rest of the world. It is here, outside of Europe, that these new initiatives will most beneficially be felt.

Dr. Peter Rogge is Chairman and Managing Director of PROGNOSE AG, a European Centre for Applied Economic Research, based in Basle, Switzerland.

Dr. Rogge visited South Africa in March, 1975, as the guest of several South African organisations, including the Institute.

OUTLOOK ON CURRENT WORLD ECONOMIC
AND MONETARY PROBLEMS ⁺

Max Kühne

Outlook on Current World Economic and Monetary Problems

The world economy is now undoubtedly in its most difficult phase of the postwar period. It is no exaggeration to say that since 15 August 1971, we have witnessed the collapse of the old monetary system. At the same time, creeping worldwide inflation has turned into a gallop and there are now more and more indications that the era of steadily increasing prosperity in the major industrial nations is over, at least for the time being.

Inflation and the demise of the old monetary order

The breakdown was to some degree inherent in the Bretton Woods System: The Gold Exchange Standard became a Dollar Standard; this assumed that the United States would show a balance of payments deficit in order to supply the world with monetary reserves - as the dollar constituted the main reserve medium - and, at the same time, maintain a strong national currency.

However, this policy of "benign neglect" of the American balance of payments situation could function only as long as the trading partners of the United States were prepared to accept without hesitation all the dollars coming their way. But such willingness waned with the widening discrepancy between accumulated foreign dollar balances and America's gold reserves. The suspension of the gold convertibility of the dollar and the realignment of exchange rates under the terms of the Smithsonian Agreement in December of 1971 were unable to prevent new waves of distrust from unsettling the dollar.

The only way out was to float.

Inflation breeds crisis

The Dollar Standard was not solely responsible for the collapse of the Bretton Woods System. Trends within the national economies taking part in the system were so diverse that they were incompatible in the long run with fixed exchange rates. The main culprit for the widening discrepancies, which have resulted in balance of payments upsets and monetary turmoil, has been increasing worldwide inflation. Initially, inflation was financed by the dollar flow

⁺ An expanded version of remarks by Mr. Kühne at the meeting of the Witwatersrand Branch on 13 March, 1975, which was also addressed by Dr. Peter Rogge.

towards Europe; by 1973, American balance-of-payments deficits had cumulated to an aggregate amount of over \$ 90'000 million. It is estimated that nearly \$ 70'000 million of this was taken up by foreign central banks, which thus boosted the money supply in their countries proportionally and permitted money in circulation to expand via the internal mechanism for creating means of payment. The Euro-market was the target of the remaining dollar balances to the tune of \$ 20'000 million. The credit creation multiplier building on that base was virtually unlimited. The gross amount of short-term dollar balances outstanding in the Euromarket in the summer of 1974 is estimated to have reached much more than ten times the base figure mentioned. So the Euromarket made a very explosive contribution as a financing instrument for inflation. Now, inflationary processes tend to be self-accelerating, because they give debtors an advantage over creditors, stimulate a flight into real assets - thus speeding up the circulation of money - and cripple the will to save. Moreover, social groups are trying increasingly to institutionalize ways of safeguarding their purchasing power. In the long run, inflation will not lead to higher growth rates or guaranteed full employment; instead, it harbours the seeds of economic crisis. The most obvious reason is that the deflation necessary to restore equilibrium must be all the more severe the longer the inflationary excesses have been allowed to go on. The resultant drop in employment and attendant underutilization of production potential will be that much more serious. Even before this point is reached, though, the inflationary process causes distortions that necessitate painful correctives later on. Just one example of this was the flight into real estate that inflated the building industry out of all proportion in many countries; now construction is going through a critical retrenchment process with repercussions on the rest of the economy.

World inflation and floating rates

The underlying cause of the transition to floating exchange rates was the varying extent to which the European countries were prepared to tolerate inflation. Though no one would claim that floating exchange rates have promoted worldwide stability since their adoption, at least they have eliminated the compulsion to import inflation and made it possible to get monetary expansion under control. The switch to floating rates was, however, just as much a result of the aversion of less stability-conscious countries to the restrictive policy dictated by balance of payments considerations. Precisely for those among them that place less value on stability, though, there are two sides to the coin of floating rates. It is true that they eliminate the need for deflation to keep the existing parities in line. The trouble is that the resulting gradual devaluation of the currency makes imports increasingly expensive, so that inflation becomes harder to combat. This again leads to devaluation tendencies, which together with the ensuing lowering of export prices, cause a systematic erosion of the economy.

The recycling of "oil money"

A large part of today's disquieting conditions has its origin in the circumstances I have just described, quite apart from the fourfold increase in the price of oil which for many countries led to a drastic deterioration of their terms of trade. Not only did the upward surge in prices coincide with an ever more serious inflationary spiral throughout the world, but more or less everywhere it knocked balances of payments out of kilter to an extent unknown since the thirties. The surplus revenue of the oil-producing countries for 1974 is estimated, as you know, at 60 billion dollars. By way of comparison, the aggregate net surplus of the 24 member countries of the OECD in 1973 was approximately 4 billion dollars. Indeed, only half of these 60 billion dollars would be enough to buy up all outstanding Eurobonds.

Several years must pass before the payment situation of many industrialized countries and the oil-producing states is expected to be in some kind of equilibrium, and during this period the latter will have to finance the deficits of the former through credits of various kinds. The magic word is "recycling". However, the way in which the oil money is being channelled back raises a number of problems:

First: The oil producers' preference for short-term investments, exposing the West to the constant threat of a sudden withdrawal of capital accompanied by liquidity crises and exchange rate fluctuations with possibly very dangerous economic consequences for the nations concerned.

Second: The bulk of the Petrodollars will understandably be flowing into countries with relatively favourable balance of payments positions which may then have to contend with massive influxes of funds. On the other hand, the Petrodollars give a wide berth to countries like Italy where the need for deflation is consequently even greater than it would have been anyway. Like any creditor, what the oil producers are seeking is a guarantee that they will ultimately be able to convert the loans they have granted into goods. Countries with a strong balance of payments are better able to furnish this sort of security than those threatened by national bankruptcy.

Third: Even if oil-producing countries go on preferring short-term deposits with the biggest banks to other forms of investment, capital adequacy and liquidity considerations must be expected to erect, at some not too distant future date, a barrier to this type of recycling process.

In a longer range perspective, the interest payment and the reimbursement of the principal may cause additional problems. The most potent oil producers will, probably for a long time to come, not be able to offset their enormous earnings by corresponding imports. This situation could, however, result in a serious drain on the resources of countries with weak payments positions.

What is the latent danger of this state of affairs?

Borrowers from countries with a weak balance of payments can no longer finance themselves to the same extent as heretofore on the Euromarket.

Let us make a brief digression to describe the situation there. Between 1968 and mid-1974 it had been growing at a rate averaging more than 30% a year; at the end of that period, there was something like \$ 200 billion in the system. Last summer the growth stopped abruptly and, for a while, actually declined - something it had never done before. Some bankers who had sustained sizeable losses on Eurodollar loans "packed up and went home". There are quite a few people who now fear a Eurodollar default in 1975. Some 96% of the international banking community participating in a recent survey expect a re-scheduling of medium-term Eurodollar debt by a borrower during 1975; 74% believe that there will be an outright default this year, according to a survey of over 100 bankers in 15 countries carried out by Eurostudy, a private annual review of the Euromarkets. Eurostudy furthermore says that 71% of the bankers surveyed consider that credit analysis of medium-term risks is not of a sufficiently high standard. One banker is quoted as saying that "there is too much follow the leader lending and not enough independant evaluation". On the other hand, concern about the market as an engine of inflation has now a little bit diminished :

- in part because the growth has ended;
- in part because bankers who are still lending Eurodollars are behaving more prudently.

The question now rather is about the health of the loans in the last few years.

If there are major defaults, what will they do to the International banking system?

As you know, the Euromarket has linked together hundreds of banks, of various sizes and varying degrees of health, many of which knew little about one another. In an atmosphere of mutual distrust, one bank's problems could rapidly create problems for the entire system.

If many bankers should be eager to get out of the market, borrowers will have a lot of trouble rolling over or re-negotiating existing loans. This has already been visible in one of the more sensational calamities of the Eurodollar market - the misfortunes of Burmah Oil Company. Another case is the news of the New York State Urban Development Corporation which was unable to meet a \$ 104,5 million payment to U.S. note-holders. The fear was that if an agency of New York State could default on a loan, the fabric that holds bond markets together - confidence - could begin to unravel. Prices on the Eurobond market dropped a sudden and sharp 2% to 3% at the midweek-news of the default, but by the end of the week, the loss on average was only 1%.

As I already mentioned, borrowers from countries in balance of payments difficulties may find it more problematic than heretofore to raise funds on the Euromarket. Consequently, the countries concerned might be forced to slash imports and boost exports. Since under the prevailing circumstances restrictive measures - to improve external accounts - taken by one industrialized country would immediately aggravate the difficulties of others and prompt them to take countermeasures in their turn, there is a very real danger of intensified trade protectionism, which could precipitate a disintegration of the world economy, with serious consequences for output and employment. That would obviously be a disaster.

Let me recapitulate the main problems in summary fashion :

1. Surpluses of unprecedented dimensions chiefly accruing to a few sparsely populated countries.
2. The import potential of the oil producing countries is relatively low, although quite higher than originally expected.
3. The big banks in the West will have to exercise restraint in accepting billions of Petrodollars because of legal and statutory regulations governing the equity/deposit ratio.
4. Countries already struggling with balance of payments difficulties may incur even huger deficits, and thus run into a dramatic situation.
5. Exaggerated and intolerable levels of the exchange rates of certain currencies.

The two latter factors entail the danger of a relapse into a restrictive bilateralism threatening world-trade.

6. We have been confronted with this situation practically overnight, but need years to adapt ourselves to the changed conditions.

The very nature of all these problems is, in my opinion, a challenge to the Governments. The return to a more stable international monetary order is essential. However, a stable monetary system can only be established :

- if the rampant inflation afflicting so many countries - and posing serious economic, social and political problems - is brought under control,
- and
- if the extreme balance of payments disequilibria can be reduced to an extent allowing a normal adaptation process and the transfer of real resources from the oil consumers to the oil producers.

Now, what are the hopes for averting a real catastrophe?

We have seen that, on the whole, an internationally unharmonized growth of demand far in excess of the real limits of production, accentuated by the quadrupling of oil prices, brought the world economy to the brink of crisis. Look, for example, at the situation in Japan. Although they had in 1974 a 1,7 billion \$ trade-surplus, their oil import bill increased by 14,4 billion \$. The deepening recession - including an 18% slump in industrial and mining production - has sent estimated unemployment soaring over the million mark. More and more workers are given holidays at reduced pay in Japanese-style lay-offs which the government is now subsidizing in 39 industries.

What grounds are there for hoping that the crisis can be averted?

- in the first place, the system of fixed exchange rates has already collapsed. This means that there is no additional deflationary pressure created by artificially supported exchange rates.
- second, this critical situation is not hitting us in a state of unpreparedness and euphoria as in the thirties.
- third, the stock markets - where stringent margin regulations have avoided excessive speculation - have already given us a substantial dose of the worst.
- fourth, the Euromarket's contraction appears to be taking place in reasonably orderly fashion.
- fifth, economic leaders have become, if anything, overly fearful of a cumulative deflationary process.
- finally, an awareness of the inescapable interdependence of world economies has strengthened international

solidarity on the financial front. Some "first-aid" plans have already been agreed upon :

- there is the IMF oil facility for 5 billion SDR or 6,2 billion \$. I understand that Iran and Saudi Arabia will contribute 1 and 1,2 billion \$ respectively, which shows that they are prepared to help (five countries have already bought 384 million SDR from this oil facility to help pay their import bills).
- there is moreover the solidarity fund of the oil consuming countries of 25 billion \$ under the auspices of the OECD. Other solutions are currently being studied.

The economic and monetary outlook may be rather sombre, but I think that the difficulties confronting us should not be over-dramatized either.

Let us hope that the oil producers will in their own interest co-operate in restoring monetary order, inasmuch as in the closely inter-related economic environment in which we live today, we are in the long run all sitting in the same boat.

Moreover, apart from the assumption that oil - as recent major finds in other areas show - is perhaps not as scarce a commodity as is imagined, the efforts to find substitutes at reasonable cost should gradually reduce the dependence of certain countries.

There is another factor giving grounds for moderate optimism:

If both sides realise that a monopoly, which could be tantamount to exploitation, can have a boomerang effect sooner or later, then there are fair chances for a collaboration in various forms. The Western world disposes of the technical and administrative know-how as well as of enormous production capacities. Is not an exchange between financial and technical resources an obvious solution? An example of the type of co-operation I have in mind seems to be the 15 billion \$ trade pact just signed by the U.S. and Iran.

The logical counterpart to joint-ventures in the Middle-East are stakes in Western enterprises. Of course, this is possible to a limited extent only.

What we need is a breathing-space for devising constructive policies. If we get it - and it now looks as if the OPEC-countries were seriously interested in a dialogue - the odds are that we may well have to pass through a critical period involving recession for whole countries and branches and collapse for some companies, but that we shall be able to overcome the difficulties without going through a catastrophic depression.

Gentlemen,

Since my arrival in South Africa a few days ago, I have been frequently asked to make a prediction about the development of the gold price and of some key-currencies such as the Dollar, the German Mark and the Swiss Franc. As you will have observed, I have not made any specific forecasts during my speech. I feel that this is simply not possible and that an attempt to do so would be an unrealistic undertaking in today's economic and monetary environment.

But let me give you my purely personal view about the role of gold in the foreseeable future.

Gold has a number of merits which are highly esteemed not only in times of uncertainty and I think that its prestige has even been enhanced as a result of recent developments. Unlike foreign exchange assets whose intrinsic worth is at the mercy of the economic situation or the policy of the authorities in the reserve currency country, no such risks are attached to gold. It is the only reserve embodying a real value and is therefore marketable and utilizable at any time. Moreover, inasfar as it is kept within the country, gold has further advantages over other reserve assets in that it is on hand in times of war or emergency, is exempt from transfer restrictions and runs no risk of being blocked.

All these factors still inspire many governments and individuals to more confidence than do man-made surrogates. I therefore feel that the yellow metal will continue for some time to come, to play an important part as a standard of value in a new monetary system, as an international liquidity reserve and as an investment medium, particularly if investors are of the opinion that, even in a much less severe inflationary climate, gold still offers them a better hedge against depreciation of their assets.

Mr. Max Kühne is a Director of the Swiss Bank Corporation, and is on the Board of PROGNOS AG.

WHAT'S GONE RIGHT WITH THE UNITED NATIONS ?

Andrew Boyd

Thirty years ago - on October 30, 1943 - the first statement of intention to set up the United Nations as "a general international organization ... for the maintenance of international peace" was issued, in Moscow, by the governments of the United States, Britain, China and the Soviet Union. Thirty years after that Moscow Declaration, how far have we come ?

Addressing the 1973 U.N. General Assembly, two days after he became Secretary of State, Henry Kissinger pointed out that American recognition of the U.N.'s importance was being reaffirmed by his coming to New York immediately after taking office. (In fact, he appeared in the United Nations building before he had even moved into the State Department.) But he also said, quite correctly: "It would be idle to deny that the American people, like many others, have sometimes been disappointed, because this organization has not been more successful."

It would indeed be idle to deny the disappointment. But it is far more idle to measure the U.N.'s performance against the very high hopes that many people quite naturally held at the end of the Second World War. In 1945, as in 1918, mankind emerged from a hideous ordeal with fervent hopes that it would prove to have been "a war to end war". Of course our hopes were high. But it did not take us long to perceive that universal peace was not yet at hand. While the victorious armies were demobilizing, there was civil war in China and Greece. In Indonesia and Vietnam there was violent resistance to the reimposing of the European rule that the Japanese invasions had interrupted. In Eastern Europe the Russians forcibly imposed communist regimes and suppressed dissent ruthlessly. There was bloodshed in India and Pakistan when the British withdrew, and in Cyprus when they did not withdraw.

It is grotesquely absurd to base disappointment with the U.N.'s record on the notion that its first years were marked by peace and harmony that we have now lost. The late 1940's were far from peaceful; 1948 saw the birth of Israel in the pangs of war; 1950 saw the communist invasion of South Korea. It is even arguable that the myth of a lost golden age stems partly from the fact that, despite all those postwar high hopes, people really expected less from the U.N. than they do now. I have recently seen the U.N. angrily decried for not preventing massacres in Burundi. I do not recall that it was denounced for failing to prevent the much bigger massacres in India and Pakistan in 1947. It may seem odd that expectations should increase together with disappointment; but human nature, too, is odd.

The United Nations is not a magical device but a mechanical one. It can wave no wand that transforms quarreling nations into peaceful ones; it can only provide ways and means of resolving or reducing quarrels. Its mechanisms can be no better than the nations will permit them to be. There is only one true measure of its performance: the comparison between how things really were in its first years, and how they are now. Let us set aside all those dashed hopes, and apply this measure - concentrating on specific points that are reasonably measurable, rather than indulging in vague generalizations about the world being a better or worse place than it was.

Originally the U.N. had 51 member states; now there are 135. This increase is often said to have made the organization unmanageable and ineffective. But the original membership was hopelessly inadequate. Two fifths of it was Latin American. Africa was hardly represented at all, and less than half of the West European states were members. Today the relative voting power in the Assembly of the Latin American, Afro-Asian, West European and Soviet-led regional groups roughly corresponds to the balance of populations in the world. The great wave of decolonization that has created so many new independent states has helped to redress the original imbalance and make the U.N. a much more representative world body.

Complaints about the newer members tend to dwell on the idea that many of them are too small, pay too little, and talk too much. But the U.N.'s early membership already included such "mini-states" as El Salvador, Iceland, Liberia, Luxembourg, Nicaragua and Yemen; and it should be remembered how long it had to wait before the Germans were admitted and the Chinese seat was transferred to the government that controls China. Big gaps as well as little ones have been filled.

Visions of Assembly resolutions being pushed through by states that contribute only about 4 percent of the U.N.'s basic budget, are conjured up by people who fail to notice that this never actually happens. In reality the sharing of dues is now far more equitable, especially now that the American share has been limited to 25 percent, than it was at the start, when the United States was paying 40 percent. And the fact should be faced that a good many small states (including early members as well as new ones) find it hard to meet the real cost of membership, of which their basic dues are only a minor part. The U.N. has wisely rejected the idea that the poor should be silenced because of their inability to pay more. In its Assembly the small and poor states can obtain a hearing which they need more than rich and powerful ones do. As to excessive talking, it is evident that the original members indulged in it more than the new ones do. Last year's 132-member Assembly session lasted no longer than the U.N.'s early Assemblies did when there were only 50-odd members.

In the beginning the Secretary-General had no explicit right even to make his voice heard in debates. Starting with Trygve Lie, successive holders of the office have gradually won the right to take initiatives -

in debate, in mediation, in the sending out of fact-finding missions and observers - which have often proved invaluable when neither Security Council nor Assembly could take timely action to deal with a crisis. Their discreet diplomacy, much of which is still unrecorded, has eased many alarming situations by means that the U.N.'s founders never envisaged. The Secretaries-General have also served the organization well by repeatedly resisting, on its behalf, pressures from one or more of the great powers. This, too, was not foreseen in 1945.

The "balance of power" between Assembly, Security Council and Secretary-General has been improved in other ways. Since the adoption in 1950 of Dean Acheson's "Uniting for Peace" procedures, the five veto-wielding Council members have become more cautious about using a veto in a way that might bring an emergency Assembly meeting down on their heads like a sword of Damocles. Even the Russians, who had bitterly denounced the "Acheson plan", have now tacitly accepted it, as is shown by the fact that they have themselves called for emergency Assembly sessions on two occasions, in 1958 and 1967. The new procedure has not obliterated the Council; rather, it has kept it on its toes and reduced the likelihood of deadlocks.

The Security Council has also found its own ways of avoiding some of the deadlocks that the procedures originally laid down would have led it into. It has learned to operate by "consensus" when it cannot agree on a formal resolution. It has learned not to label disputes as disputes - thus avoiding paralyzing disputes about whether parties to disputes may vote on disputes. It has blandly ignored what the Charter said about its decisions requiring "the concurring votes of the permanent members"; it simply does not treat their abstentions as vetoes. If it had not made this switch, it could not have authorized U.N. action in Korea and the Congo, or called for economic sanctions against the illegal regime in Rhodesia, or maintained the U.N. force in Cyprus.

When the U.N. was being shaped, the five veto-wielding powers insisted that peacekeeping was to be their job and theirs alone. If they had in fact managed to do it all between them, the rest of the world might well have found this kind of great-power "condominium" intolerable; but in any case it was soon clear that they could not do it. Their five-power Military Staff Committee rusted away. They failed to implement the 1947 U.N. plan for Palestine; and one of them, the Soviet Union, openly supported the communist invaders of South Korea in 1950. It has fallen to lesser states to play active, indeed vital, parts in the task of equipping the U.N. with alternative means of curbing conflict. These improvised means still have obvious limitations, all too starkly revealed by the outbreak of the Arab-Israeli wars of 1967 and 1973; but they have represented a considerable improvement on the original great-power scheme, which did not work at all. It is thanks to the improvisations of the years since 1945 that Henry Kissinger was able to tell the Assembly: "In Indonesia, the Indian subcontinent, the Middle East, the Congo and Cyprus, the U.N. has shown its ability for effective fact-finding, mediation and peacekeeping missions."

The U.N.'s special responsibility toward its eleven Trust Territories has been almost fully discharged. Nine of these former colonies, with more than 20 million inhabitants between them, have duly achieved independence or have freely chosen to join neighboring states. On decolonization as a whole, the U.N.'s record is not free from failures and errors; but, in an age when so many poor and weak states were gaining their independence, it is an important fact that the U.N.'s existence has made it easier for many of them to avoid becoming mere unhappy appendages of major powers, or bones of dangerous contention among major powers.

The antagonisms between the world's "poor south" and "rich north" that are apparent in the U.N. would have been just as painfully apparent if the U.N. did not exist; and without it, there would be no place where the two groups could develop a dialogue leading toward compromise and co-operation. Here, the vigorous evolution of the U.N. system's economic and social parts has been of great value.

Originally the various specialized agencies were formed quite separately, and were seen primarily as instruments for co-operation among the richer and more advanced countries. Their coordination is still visibly inadequate, but they have already been forcefully pulled together by the creation and growth of the U.N. Development Program; and alongside them, other U.N. mechanisms have been shaped to help tackle the gigantic problems that mankind faces now that it is at last coming to recognize that poverty and its related ills are matters of common concern. The greater part of the whole U.N. system's activity, measured in terms of manpower and money, is now engaged in these fields, and the scale of the effort is vastly bigger than was envisaged in the 1940s.

Only since 1968 has the U.N. begun to exert a real influence toward the resolving of the world's increasingly urgent environmental problems. Only in recent years has it broken through the taboos that impeded international efforts to avert the nightmare of a catastrophically overpopulated world. These are new extensions of the work of an organization that some people regard as having become moribund. Kurt Waldheim rightly emphasized, in his 1973 annual report as Secretary-General, that in many fields the U.N., "far from being sidestepped, has become increasingly involved at so rapid a pace that institutions created in 1945 often no longer correspond to current needs".

There are now many thousands of people who have served the U.N. not just as deskworkers in New York, but as peacekeepers, investigators, relief workers and technicians in many parts of the world, often in remote and thoroughly uncomfortable regions. Thus the world has newly acquired a large body of men and women who have practical experience in the business of saving their fellows from needless strife and suffering. This is pure gain. And in the U.N. as elsewhere, people learn even from their mistakes. Encounters with failure and waste have taught the U.N.'s

servants many lessons about "how not to do it". The governments that are their joint masters tend to be slower to learn such lessons than the men in the field; but the lessons are gradually being applied. This, too, is pure gain.

The mistakes and failures in the U.N.'s record have been given such ample prominence elsewhere that I have seen no need to go over them all again in this article. Many of my colleagues in journalism who bear the U.N. no particular ill will have stuck to our profession's maxim that "good news is no news" so closely that they have hardly even mentioned the organization except when it was in serious trouble. The world has been fully informed, throughout the U.N.'s life, about what's gone wrong. Precisely because of this, it is all the more important to pause from time to time and remember what's gone right. Quite a lot has.

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of *the Economist*, London.
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CANADA AND AFRICA⁺

The Hon. Allan J. MacEachen

Canadian Secretary of State for External Affairs

One of the aims of my Department is to promote closer contact and dialogue between those who are looking at international affairs from the academic standpoint and those of us who have to make daily recommendations and decisions in this field. It is important for us to obtain and be aware of different viewpoints in order to give our decisions the soundest possible basis. With this in mind, I should like to discuss tonight the basic principles motivating our policy towards Africa.

Our first concern regarding Africa is precisely the same as in every other area of the world -- namely, the cultivation of mutually-beneficial relations with the nations of the continent, who have undertaken to recast their ancient cultures in the framework of modern statehood. Of course, the first prerequisite of fruitful interchange between nations is the maintenance of peace, and this is why the Canadian Government supports the general peacekeeping role of the United Nations and, as well, the work of the regional bodies directed towards the removal of sources of friction between African states.

Recent developments indicate that the impoverished and the deprived are not likely to remain for long in a peaceable frame of mind; their patience is wearing thin. Consequently, there is a direct link between our concern for peace in Africa and our concern for social justice. The foreign policy review of 1970 made social justice, along with peace and security, two of the most important of our six policy objectives. It also made it clear that social justice is to be pursued largely through development assistance. There are people who still question the wisdom of giving aid, in view of our own economic difficulties, not to mention some improvement in the incomes of those we are aiding. "What do we get out of this?", they ask. The answer to this is that in today's world we have no real alternative. To quote the report entitled *Partners in Development*, written by the Commission chaired by the late Lester B. Pearson:

"The simplest answer to the question is the moral one: that it is only right for those who have to share with those who have not."

This report adds:

"Even in the best conditions, development will be untidy, uneven and ridden with turmoil. Great forward movements in history usually are. The thing to remember is that the process, global in scope and inter-

⁺The text of a speech to the Fifth Annual Conference of the Canadian Association of African Studies, Toronto, on 19 February, 1975.

national in nature, must succeed if there is finally to be peace, security and stability in the world. If the developed nations wish to preserve their own position in that world, they must play their full part in creating a world order within which all nations, and all men, can live in freedom, dignity and decency. In short, we face an essential need and an unprecedented opportunity. International development is a great challenge of our age."

In the opinion of the Government of Canada, these words are even more convincing today than when they were written five years ago. And they underline our interest in partnership and co-operation with developing countries.

Our involvement in development assistance in Africa is substantial. This year we have allocated \$195 million of public funds for our bilateral programs in the independent countries of Africa -- namely, over 40 per cent of our bilateral-aid budget. Of this figure, about \$85 million took the form of grants and the rest that of concessional loans. We shall also be providing almost \$60-million worth of food aid to Africa this year. An additional \$26 million has been channelled into Africa through multilateral agencies such as the UNDP, the World Bank, and the African Development Bank, as well as non-governmental organisations such as the World Council of Churches. I should like also to refer to the special assistance program we have undertaken in the Sahelian region of West Africa. This special program provides for disbursements over the next five years of some \$230 million. These disbursements are certainly justified by the magnitude of the problems found in that region of Africa, most of which are directly related to the severe drought suffered there since 1968. Canada has tried to play its part in meeting the immediate needs of the people stricken by this drought. What remains to be done now is a long-term effort, aimed at finding and implementing permanent solutions, in co-operation with the other aid agencies, to the severe setback the drought has meant for the development of the Sahel.

There is a third element, however, which has a special relevance to Africa. That is our concern for human rights and dignity and self-determination. For a quarter of a century, successive Canadian Governments have condemned racial injustice and colonialism as they have been practised in Southern Africa. The situations prevailing in that area have, in our opinion, been totally unacceptable and an affront to the conscience of the world.

Sometimes our policies in this field have been dismissed by some critics as mere rhetoric. But that is far from the case.

For example, we consider our bilateral aid programs in the independent countries of Southern Africa such as Tanzania, Zambia, Malawi, Botswana, Lesotho and Swaziland show where we stand in relation to them and to the white-ruled minority regimes.

We have also channelled substantial sums into various multilateral institutions such as the United Nations and its Specialized Agencies and the Commonwealth Secretariate, which are carrying on humanitarian programs in this area.

Finally, we have initiated a policy of expanded humanitarian assistance in Southern Africa. Funds are given in the form of matching grants to Canadian non-governmental organizations and international bodies that have existing projects of this kind in Southern Africa. Assistance is being provided, for example, to an educational and health centre in Lusaka, to other health centres in the Chiweshe Reserve in Rhodesia, and for educational, medical and agricultural equipment in Angola and Mozambique. Our record for many years shows convincingly where we stand. We have condemned, and shall continue to condemn, racism and colonialism in Southern Africa.

Developments in Southern Africa during the last year give some hope that the situation may significantly improve. Events in the Portuguese territories have been so rapid and so dramatic that they emphasize how unwise it is to be dogmatic. We are gratified and encouraged by the decolonization process undertaken by the Portuguese Government. Very few people foresaw such changes as have occurred in Guinea-Bissau, Angola and Mozambique during the past year. No one can be certain what will be the situation in the remainder of Southern Africa one year from now. However, there are indications that the South African Government is seriously attempting to improve its relations with its neighbours by peaceful means. As part of this effort, the South Africans appear to be pressing Ian Smith to seek a settlement of the Rhodesian problem with the African nationalists. We believe that, to some extent, these initiatives of the South African Government are a belated response to the pressures that Canada and other countries have exerted on South Africa. In our view, such pressures would have been less effective if we had chosen to have no truck or trade with the South Africans and severed our diplomatic relations with them, as some of our critics have suggested. We should hope, moreover, that these efforts by South Africa to seek better external relations would be accompanied in the future by determined efforts to eliminate racial injustices at home.

As you know, the broadening of Canada's African diplomacy is recent but has been quite rapid. It was not until 1957 that we established our first full-fledged diplomatic mission in Black Africa. Prior to that, we had representation in South Africa and a trade office in what is now Zaire. There are now Canadian missions in the following countries of the Maghreb and *francophone* Africa: Senegal, Ivory Coast, Cameroon, Zaire, Tunisia, Algeria and Morocco, as well as smaller offices in Niger, Mali and Upper Volta. In Commonwealth Africa, we have resident high commissions in Nigeria, Ghana, Zambia, Tanzania and Kenya. Finally, we have embassies in Ethiopia and South Africa. Most of these diplomatic missions are accredited to one or more other countries. In total, we have resident or non-resident accreditation to every country of Africa with the single exception of Equatorial Guinea.

The majority of our External Affairs personnel in these posts are spending some of their time on development-aid matters; in addition, there are 16 CIDA field representatives attached to these missions.

About 850 Canadian experts are now in Africa on CIDA contracts of every conceivable type, and some 500 representatives of CUSO (Canadian University Services Overseas) and of its French-language equivalent are posted in African countries. Another 50-odd Canadians are working in Africa on behalf of the Canadian Executive Service Overseas -- a very useful organisation through which senior Canadians provide their expertise to the developing countries at minimal expense. In total, therefore, we have nearly 1,500 Canadians working on development in Africa.

The involvement of provincial governments is an interesting feature of the Canadian presence in Africa. They have already displayed their interest in the continent and their willingness to participate further in Canada's international development programs. They possess important resources both technical and managerial and their support for Canada's aid program in Africa is extensive. They work in close harmony with CIDA to recruit teachers and experts. Quebec is at present in the vanguard of this involvement, and participates with CIDA in four important projects in Africa. This demonstrates how all levels of government in this country can work together abroad.

I must point out, however, that most of our missions in Africa are still quite small; their staffs are hard-pressed to discharge their responsibilities, particularly in regard to countries of non-residence. For example, our ratio of aid supervisors to aid administered is far out of line with some other countries, particularly the United States. Moreover, the responsibilities of our missions go well beyond administering aid. The number of Canadian visitors to Africa is rapidly increasing, with attendant consular problems. And with increasing visits of businessmen, technical experts and advisers, the question of trade and cultural exchange has taken on a new dimension.

Yet some people ask: "Why are we in Africa at all?" The short answer is that Canada cannot afford to isolate itself from what André Malraux has accurately described as one of the greatest events of the twentieth century-- the emergence of hundreds of millions of Africans to self-government and independence. We Canadians are an outward-looking people, conditioned to be so because our very existence depends on the outside world; and, when we look eastward, we must look to Africa as well as Europe.

Our two official languages are also the two European languages used most frequently in Africa. The Government's policy is a distinct asset in this continent, and I'm told that the bilingual nature of Canada is well reflected in the linguistic background of the young Canadians working there. I should add that Canada has achieved a fairly high level of technological competence; and technology is an essential ingredient of development.

Even if the passage of time has eased some of the post-independence strains between African states and their former colonial masters, there are still quite a few situations where governments would prefer to deal with a country like Canada that has no colonial past; and, if I may add a personal note, I have the feeling that our response has not always met with the expectations of the Africans. As they say on Madison Avenue, we must try harder; and I intend to try harder.

I turn briefly to the wider political and cultural framework of Canada's African diplomacy.

Since the 1950's, Canadian participation in the United Nations and in the Commonwealth has been a basic element in our foreign policy; in the 1960's, La Francophonie was added to this framework. The multilateral connections between Canada and the African states forged in these various bodies had the natural result of causing us to develop our bilateral relations with the countries involved.

Today our relations with Africa are perhaps entering a new phase. We must continue to support the three multilateral bodies I have mentioned. On the other hand, we cannot afford to regard the African states simply as emanations of some multilateral institutions of which we are both members.

The point I wish to make is that, in developing our policies, it is now essential for us to consider the particular needs, aspirations and circumstances of each of the African countries with which we have diplomatic relations. We are now more aware than previously of the necessity of balancing our relations with these countries by placing more emphasis on bilateral matters and looking at areas of mutual interest other than aid and technical co-operation. I'm thinking of general policy consultations, cultural affairs, and broader economic co-operation. This adjustment will require us to demonstrate both flexibility and imagination. In each case we shall be required to estimate both our own resources and the particular problems of the individual African country concerned. It is only in this way that we shall be better able to organise aid programs, to expand business relations and to promote successfully those policies (for example, in the environmental field and the law of the sea) that we Canadians regard as particularly important.

The furtherance of such bilateral relations is going to require more effort in Africa on our part than we have previously been able to make. But we must do this without in any way sacrificing the multilateral ties that have proved so valuable to Canada in the past and that we intend to continue to strengthen.

Obviously, a balance must be struck in the scale of priorities on both sides and, naturally, such a balance is, in fact, struck by the daily process of diplomatic activity. Canadian interests in Africa would hardly be enhanced if our Government were to allow our relations with the United States, Japan and Europe to deteriorate. In a very real sense, it is the very robust network of relations -- political, economic, technical and cultural -- that Canada has developed with other industrialized countries that gives us the means to cultivate a more substantial *rapprochement* with the emerging states of the world, in Africa as elsewhere. But I foresee nothing in the future that is likely to lessen the Canadian presence in Africa. On the contrary, all present indications are that we must continue to increase our activity in this field -- subject, of course, to the resource constraints. In this respect, I should certainly expect a substantive contribution from Canada's Africanists -- particularly on the more fundamental forces that will orient Africa's growing participation in world affairs. It is no secret that ominous gaps are developing in certain areas between the developing nations and the developed world. Within the Third World itself, the world energy crisis has made the relatively wealthy states better off and the poorer peoples even poorer.

You have heard complaints that the Third World is becoming monolithic, that it is "ganging up" on the West, that it is developing a blind automatic majority in international agencies. Africa is often singled out in these criticisms, as the numerous African countries are an essential component of any such majority. Well, this trend is quite understandable when we remember the history and background of the African countries. Perhaps we should not be surprised that they are using the most compelling argument they have, which is their voting strength in the United Nations and other bodies. Africa must be heard.

But international organizations, in their present set-up, are not parliamentary bodies; they are rather a forum for discussing various world issues and reaching decisions on a consensus basis. Confrontation between rigid blocs will lead nowhere. Canada does not wish to be automatically assigned to some theoretical bloc. We regard this approach as simplistic and even harmful. It is a precarious world we live in and to such common enemies as disease, poverty and ignorance we run the risk of adding bristling suspicion and distrust.

If we are to progress through this difficult period in world history, we shall require good will, common sense and much greater knowledge of each other. Ignorance is highly dangerous in this volatile international environment. It is certainly true that knowledge does not always bring wisdom, but we should strive to create a climate in which that essential quality can be nurtured.

There is some urgency, in my view, to expose and discuss more formally with African leaders the Canadian Government's views on these matters; even more urgent, perhaps, is that I, as Secretary of State for External Affairs, be briefed at the highest level on the approach of African governments to the second special session on development of the United Nations' General Assembly next fall. As you know, our Government found itself in a minority situation in the last Parliament; and the necessities of survival forced us to curtail drastically consultations with other governments. This situation has now been remedied, at least for a few years. Consequently, I am now making arrangements for a two-week tour of Western Africa in mid-April; and I am looking forward to this opportunity to acquire a first-hand knowledge of the countries along the Gulf of Guinea and of the drought-affected area of the Sahel. In view of the objectives of Canadian policy in Africa, I hope, in the course of this visit, to reinforce the ties that already link Canada to the independent countries of Africa, to take stock of what has been accomplished so far, and to explain Canadian policies in areas we consider vital.

In conclusion, I wish to emphasize that Canadians must not make the mistake of regarding the people of Africa simply as "under-developed" recipients of our economic aid. We must recognise that Africans have their own history, culture and religion; only by understanding and respecting their traditions can we benefit from their friendship. Conversely, Africans should recognise that Western countries also have their own past and their own social institutions, which are no less worthy of study for appearing somewhat puzzling to the ancient peoples of West Africa.

Much has been made, as you know, of tribalism in Africa and of the difficulties this social phenomenon presents for nation-building in the continent. But you, of all people, should have discovered that Canada is itself to some extent a nation of tribes. There are the English and

French Canadian tribes, the Alberta tribe -- even my own Scottish Cape Breton tribe; but we prefer to call them language groups or provinces, or regions. And, of course, I don't have to tell you that interprovincial fights can sometimes be pretty rough! We have devised -- sometimes painfully -- in Canada a way to resolve these conflicts; we call it federalism, and I think that Africans could perhaps gain from a closer study of this quite remarkable political system. In due course, I am quite confident that we in Canada shall have something to learn from the way African states resolve various conflicts of interest between their own communities.

WHY ZAMBIA WANTS TO TALK

*An interview with Foreign
Minister Vernon Mwaanga*

The article which follows appeared in the *Financial Mail* (Johannesburg) of 18 April, 1975, under the same heading as above.

At last week's extraordinary session of the OAU's Council of Ministers in Dar es Salaam, Zambia's Foreign Minister, Vernon Mwaanga, had the tough task of answering vehement African critics of his country's contacts with SA. Mr. Mwaanga has made it clear that contact between Black and White governments must go on, though the possibility of taking up arms again would remain in the background.

Mr Mwaanga spoke to the *Financial Mail* during a break in the Dar talks:

FM: South Africans were saying the doves - meaning the African States that advocate contact with SA - would be eaten alive at the OAU talks. You look very much alive - what are your comments ?

Mwaanga: We have explained what our objectives are - to discuss the liberation of Zimbabwe and Namibia. The *de facto* position is that SA is the colonial authority we have to deal with.

We believe there is nothing wrong in dealing with a colonial authority with a view to persuading her to free her colonies, and I don't think anyone can be eaten alive for attempting to resolve a colonial problem.

We haven't been eaten, we are still alive, and we are keeping the initiative very much in our hands.

FM: SA claims its image throughout the world is improving, though in Britain and Holland it admits there are still people who view it with suspicion.

Mwaanga: I don't think SA's image in the world has improved as such. I have come from a long tour of the Far East and Pacific areas and have been on an extended tour of Africa.

Even when I was in Europe the other day I didn't notice any drastic improvement in SA's image. But I think that if SA were to help resolve the problem of Namibia, and help in bringing about majority rule in Zimbabwe, her image would definitely improve.

FM: If the OAU were to decree there should be no further contact by independent States in Africa with SA and Rhodesia, could it come to the point where Zambia, Tanzania and some of their friends in Africa would "go it alone" ?

Mwaanga: I want to say that the position of the liberation movements - in this case the liberation movements in Rhodesia - is crucial to the question.

Bishop Muzorewa told the OAU that the agreed position of the new, unified ANC is that it would like to opt for negotiations. They say that if, at any point, they feel negotiations have failed, they will come back to the Organisation to ask for an intensification of the armed struggle.

Their position, therefore, is not unimportant in this matter, and we hope that Africa will heed what the leaders of the people of Zimbabwe want.

If the OAU did decide there was no need to continue contacts with SA, regardless of what is being achieved and regardless of what the objectives are, then it would be up to the four presidents who initiated the contacts to meet and decide on a common course of action.

FM: We believe Zambia and Tanzania presented a joint declaration to the OAU Council of Ministers. Does this mean that reports of strained relations between Zambia and Tanzania over the issue of contacts with SA are untrue ?

Mwaanga: I don't think our relations with Tanzania have been strained. You saw the Strategy Note which was presented by President Nyerere at the Council's opening. That was a document in which both Tanzania and Zambia participated.

We did, indeed, later present a draft declaration to the drafting committee of the Council of Ministers. Our two countries have experienced no difficulty in working together.

We believe we must adopt a double strategy. We must be prepared to opt for negotiations where and if negotiations are possible. But we must also be prepared for an intensification of the armed struggle if negotiations fail.

FM: Zambia - and you personally - have emerged as central figures at the Council. Are you being attacked by other African States and, if so, how are you defending yourselves ?

Mwaanga: No one seems to have attacked us so far. We have stated the bare facts of the position as we see it. We take a realistic and pragmatic view of this matter, because we believe we (the OAU) have passed too many resolutions which have not produced results.

The need is evident that we must begin reviewing our whole strategy - our whole tactics - so that we can adopt policies which will produce results.

The United Nations, I believe, passed something like 52 resolutions demanding the release of the Zimbabwe African nationalist leaders. The OAU also passed many resolutions, I don't know how many. Yet none of those resolutions brought about the release of the nationalist leaders.

We have to begin producing policies which will produce results, not merely attend OAU sessions, pass resolutions and go home and feel satisfied until the next OAU meeting.

What Zambia has done is to point out that those who disagree with our policies would tell us exactly where they disagree. You can see the results we have achieved ... what is there to disagree about ?

Not a single country has pointed an accusing finger at us. So the need to defend ourselves has not arisen.

FM: Could we see amendments to the Lusaka Manifesto on Southern Africa as a result of this conference ?

Mwaanga: There may be a need to modify a few things to bring them up to date, because the situation has changed dramatically in this part of the world. Portuguese colonial rule is no longer an issue, as it was at the time of the Lusaka Manifesto.

The Manifesto was really a policy document setting out current objectives in Southern Africa. What we have been trying to do (in Dar es Salaam) is to agree on methods for implementing the policy decisions adopted in Lusaka.

FM: You have been a newsman, Sir. You once edited the *Times of Zambia*. How would you wrap up this conference in a couple of hundred words ?

Mwaanga: I would say this. First of all there was some confusion when we came to this conference. People came with preconceived notions. There was the question of dialogue. There was the question of détente.

So, instead of concentrating on the main item on the agenda - the overall situation in Southern Africa - people were talking about détente and dialogue and making those the major issues.

But after President Nyerere and I spoke, pointing out that these were not the issues and that we should be discussing broader policies, a number of people went back to rewrite their speeches.

So all I can say is that the suspicions have been aired, the differences have been aired, people have said what they wanted to say, and they have been able to vent whatever bitterness they have felt.

I think the conference has been very successful in getting this atmosphere of mutual suspicion removed. From now on we can proceed knowing exactly where we have gone, where we are now, and where we are going tomorrow.

FM: So the OAU is more united as a result of this conference ?

Mwaanga: Yes, because if this conference had not been held, there would have been all kinds of rumours and suspicions and people would have been making statements in their respective capitals which would not have been good for Africa.

Having aired all the grievances we had, we shall go back more united than we came.

RHODESIA/SOUTH AFRICA RELATIONS:

NEWSPAPERS EXCHANGE VIEWS

Editorial Comment in "The Chronicle" (Bulawayo, Rhodesia), 7 April, 1975

And now, let Mr. Vorster bend

The Rhodesian Prime Minister, Mr. Smith, has now bent so far backwards in pursuit of detente he is in danger of banging his head on his heels. It is a posture in which a man is apt to snap in two.

By releasing the Rev. Sithole, he has taken a colossal gamble. The question all want answered is: will there be a matching response, specifically from the meeting of OAU Ministers this week?

There will be a better chance of one if Mr. Vorster takes some positive steps of his own in the next few days.

Rhodesia may be sure he will make some small gesture - but we confidently predict it will be another little kick in Rhodesia's teeth, causing no pain to the wearer of the boot.

South Africa needs reminding that detente is not all about Rhodesia. She should note that the only item on the Dar es Salaam conference agenda is South Africa, not Southern Africa.

Rhodesia has long dominated the headlines. She has done most of the giving, largely at the insistence of Mr. Vorster. Mr. Smith came as close as he could to confirming that on Friday night.

A man and his dog

But where is South Africa's meaningful contribution to detente, as opposed to her words?

It is difficult to recall any move by Mr. Vorster that remotely matches those Mr. Smith - or indeed black Africa - have made.

Has he heard what folk say about a man who sends his dog where he will not walk himself?

When it comes to "forgiving thine enemy", what has he done? Released the ailing Bram Fischer.

Of course, some "Slegs vir Blankes" signs have been removed from some park benches.

Does he imagine these steps impress?

Or does he, incredibly, actually believe in South Africa's massive national illusion, the "homelands policy"?

Last year Mr. Vorster armed himself, prematurely, with a fresh term of office. It was clear that things the voters wouldn't like would have to be done. Now is the hour for him to do them.

Editorial in "Beeld", Johannesburg, 8 April, 1975 (Translated from Afrikaans)

They seem to be frightened

It is an unpleasant situation which has now arisen in Rhodesia, with attacks on South Africa and its Government which are strongly reminiscent of the cold war which Sir Godfrey Huggins in his time conducted so enthusiastically, but at least with greater subtlety.

We can expect such irresponsibility from the far-right elements in Rhodesian politics; they have notoriously close contacts with the right-wing mafia in the Republic. One does not take any notice of them. However, what makes us very unhappy, is the undisguised venom in those Rhodesian circles from which we expected greater level-headedness - especially in view of their own attitude in the past on the whole question of a settlement which would be acceptable for white and black Rhodesians.

In the long vehement piece which we reported yesterday morning from *The Chronicle* of Bulawayo, there is revealed an almost hysterical feeling against Mr. Vorster and our Government. The wilder men at the O.A.U. will find it decidedly encouraging; they know that the support and sympathy which Rhodesia has obtained from South Africa was one of the most important factors which has helped to maintain Rhodesia for so long. If a paper with the influence of *The Chronicle*, and a number of Members of Parliament of the Rhodesian governing party, through misguided and irresponsible utterances, now create such a strong impression that they wish to bring to an end that South African sympathy, this will greatly help the Rev. Sithole and his friends.

In Dar es Salaam the extremists will be encouraged by this Rhodesian extremism; they will all too easily see this as an indication that the nerves of important Rhodesians are already so strained that they are beginning to attack their best - and only! - friend. In calmer circumstances this would have been only the height of ungrateful irresponsibility. On the eve of the O.A.U. meeting it is a gift on a golden platter to the terrorists.

To the few M.P.'s of Mr. Smith's party, who are now apparently moving on an anti-South African course, we wish to say just this: Your own leader has repeatedly said that he regards a generally acceptable settlement as "the first prize". Such a thing does not fall like a ripe fruit in one's lap; it has to be worked for. Ian Smith is working for it. John Vorster is working to achieve it, as go-between with better contacts in Black Africa. What are your own contributions, other than to make more difficult the efforts of these men?

The Chronicle's contribution we can summarise in an adoption of its

own elegant language: It is a kick in the teeth for détente, which hopefully will not hurt too much the wearer of the boot, *and* all its people.

Editorial Comment in "The Chronicle", 9 April, 1975

Does detente stop at the Limpopo?

The Johannesburg newspaper, *Beeld*, has described our comment on Monday as a kick in the teeth to detente.

It did so in a leading article remarkable only for the ingenuity with which it evaded the issue we raised.

We were treated to some views on Sir Godfrey Huggins, a threat to withdraw South Africa's sympathy for the Rhodesian cause, and a rebuke to some Rhodesian MPs.

Sir Godfrey, alas, is dead. South African sympathy, if we are to judge by recent attitudes of *Beeld* and some other newspapers, is fragile. The MPs can speak for themselves.

To re-state the point: Ministers of the black nations are at this moment gathered in Dar es Salaam to consider their attitudes to detente in Southern Africa.

The outcome of this meeting is not known at the time of writing.

Those Ministers might be helped towards a consensus favourable to detente if they could be shown tangible evidence of South Africa's willingness to act, and not merely talk.

And not merely prod Mr. Smith into doing all the giving.

What form South African action might take is not for us to suggest. But the field so far hardly explored, is vast.

Beeld, and others, appear to need reminding that the Limpopo is not the northern frontier of détente.

The missing link

One week after the completion of the Rutenga rail link in September, the Minister of Transport said that "even under ideal conditions" Rhodesia would need a fifth rail outlet to meet production expansion.

On Friday, Mr. Hawkins' Ministry announced that plans for a second direct link with South Africa had been shelved because the Rutenga line would be able to cope.

So what gives? The prospect of Rhodesia losing its outlets through

Mozambique is far from remote, and there are economic question marks over the Mafeking line.

Has the Government put its shirt on detente? Or is it merely doing a very fair impersonation of Mr. Micawber?

THE COMMONWEALTH AND RHODESIA

A. *Commonwealth Secretary-General's Report*

In his fifth report to the Commonwealth Heads of Government, covering the period April 1973 to March 1975, the Secretary-General, Mr. Arnold Smith, included the following section on the question of Rhodesia (paragraphs 73 - 84).

When I presented my last report there seemed little prospect of an early resolution of the Rhodesian problem. The *coup* of 25 April 1974 in Lisbon dramatically altered the situation, however, and its effects can be likened to those of an earthquake which has obliterated centuries-old landmarks and changed the political landscape of southern Africa. Outside the Portuguese colonies themselves, no country is likely to be more directly and immediately affected by this event than Rhodesia.

Conscious of the possibilities inherent in the situation, I took the opportunity to establish personal contact with Dr. Mario Soares early in May 1974 in order to convey to him the Commonwealth hope that the new régime would unequivocally accept the principle of self-determination for its African colonies and move rapidly towards granting them full and unfettered independence. I also assured him, in the context of the Lusaka Manifesto of 1969 and the discussions in Ottawa in 1973, of the willingness of those Commonwealth countries in the position to do so to assist in promoting a negotiated settlement with the liberation movements once the principle of self-determination was recognised.

The important role played by President Kaunda and President Nyerere, leading ultimately to the Lusaka Agreement of 7 September 1974, is now a matter of history. I was privileged, as a result of my personal conversations with them and other leading Commonwealth African statesmen, and also with Frelimo leaders, to supplement their efforts in a small way on behalf of the Commonwealth as a whole.

Meanwhile, in Rhodesia itself the Central Committee of the African National Council met on 2 June 1974 to consider the outcome of the talks between Bishop Muzorewa and Mr. Ian Smith. Mr Smith's proposals offering the Africans six additional parliamentary seats or a total of 22 in a 72-member House - less even than the one-third representation needed to block constitutional amendments - were rejected because they fell far short of African aspirations. On 20 June 1974, following the arrest and detention of the ANC's Publicity Secretary, Dr. Edson Sithole, Bishop Muzorewa announced the suspension of the bilateral talks with Mr. Smith. He also categorically rejected Mr. Smith's invitation to a round-table conference of African chiefs and other supporters of the illegal régime, demanding instead a full-fledged constitutional conference under Britain's chairmanship attended by genuine representatives of all shades of African opinion.

President Kaunda endorsed this approach and offered to use his good offices with the liberation movements in the event of a constitutional

conference being convened. On its part, the British Government declared that the 1971 proposals were no longer on the table, and that it would not countenance any settlement without the support of the African majority. It affirmed that it would not be averse to calling a constitutional conference but stressed that certain conditions would have to be present for such a conference to be effective.

The stalemate in the Rhodesian situation was broken by the Lusaka Accord of 12 December 1974, which was preceded by months of close consultation between President Kaunda, President Nyerere, President Seretse Khama and other concerned parties. The Rhodesian liberation movements, their leaders released from detention, have merged into an enlarged ANC. Despite several developments which threatened to jeopardise the prospects opened by the Lusaka Accord, preliminary talks began between representatives of the ANC and the Smith régime on the proposed constitutional conference.

I have been in touch with Commonwealth leaders in Southern Africa and Britain throughout these developments. My services, and those of the Secretariat, are ready to help in any way the Commonwealth may require. At the time of going to press, it is too early to predict the outcome of the talks which have just begun. There are many pitfalls along the way and a wide divergence of publicly-expressed attitudes. But Southern Africa is changing fast. The approaching end of Portuguese rule in Mozambique, the close association of Mozambique's leader, Dr. Samora Machel, with the initiatives resulting in the Lusaka Accord, the increased military potential of the Rhodesian liberation movements, the growing financial, military and psychological strains on the white Rhodesian community, and the palpable reassessment by South Africa of its policy towards its neighbours, add up to a more encouraging picture than at any time since the illegal declaration of independence in Rhodesia. There may now be room for some optimism, though the illegal régime may create unforeseen obstacles.

I have received visits from Dr. Gabellah and other representatives of the African National Council during the past year, and have also met leaders of the Rhodesian liberation movements. All of them continue to place value on Commonwealth support for the legitimacy of their struggle. There is particular appreciation for the Special Commonwealth Programme for Rhodesians, now in the process of being expanded, as a single contribution to the intellectual and administrative infrastructure which Zimbabwe will require.

Sanctions Committee meetings

In accordance with the direction given by Heads of Government, the Commonwealth Sanctions Committee has continued its work. Meeting at Marlborough House in May 1974, the committee took stock of internal political developments within Rhodesia, the deteriorating security situation, the decline in white immigration and the acceleration of emigration, especially of young people. It also considered the likely impact of the Portuguese *coup* on Rhodesia's fortunes. There was general agreement that the circumstances warranted more, not less, emphasis on the strict enforcement of sanctions, the effect of which would be all the greater at a time when the illegal régime was faced with the possible

loss of Portuguese support. The committee examined the implications of the new disclosures regarding the role of international finance in the doubling of the Rhodesia Iron and Steel Company's capacity, and of other reported sanctions-breaking operations. The committee also reviewed the aid to Zambia programme, and was informed by the Zambian representative that his country was now over the hump.

In keeping with its assurance that it was examining ways to make sanctions more effective, Britain took the initiative with the Council of Ministers in Brussels for the establishment of a special committee which would look into breaches of the sanctions policy by nationals of EEC countries. In Bonn, the Government has set up an inter-ministerial committee to seek out and close loopholes in legislation and to investigate specific abuses such as the RISCO deal. Japan has sought to enlist the co-operation of its powerful Federation of Economic Organisations in dealing with sanctions violations. All these are encouraging developments which will need to be sustained before their full effect is felt.

But it is Mozambique, on which Rhodesia has relied so heavily and successfully in the past for its surreptitious commerce with the rest of the world, that presents the most ominous problem for the Smith régime. By the time the Sanctions Committee met in February 1975, Rhodesia had rushed through the completion of an independent rail link with South Africa from Rutenga to Beitbridge, in an effort to reduce its almost total dependence on the Mozambique ports of Beira and Lourenco Marques. The committee considered the position of the transitional government in Mozambique in respect of enforcement of sanctions against Rhodesia, especially in view of the adverse consequences it was thought this would have on Mozambique's fragile and war-torn economy. It recognised this as a genuine difficulty, but one to which the world community as a whole, not Mozambique alone, would have to find an answer.

This meeting of the committee took place at a time when delicate negotiations were under way in Salisbury and elsewhere. The committee welcomed the political initiatives which had made these possible, and exchanged views on future prospects. There was complete agreement that sanctions should be maintained, even intensified, till such time as a satisfactory constitutional settlement was reached. The committee also explored what would need to be done to tighten sanctions against Rhodesia if, regrettably, the current talks failed. Various approaches were discussed, including the possible future role of Mozambique in the context of Frelimo's reported willingness to apply sanctions of Mr. Ian Smith proved intractable.

B. *Heads of Government meeting in Kingston, Jamaica*

Southern Africa questions were among those discussed at the Commonwealth Heads of Government meeting in Kingston, which ended on 6 May, 1975. Other matters discussed, as reflected in the final communiqué, included disarmament, Cyprus, the Middle East, the Indian Ocean, South Asia, Caribbean questions and international economic matters. The conference also elected Mr. Shridith Ramphal, Foreign Minister of Guyana, to succeed Mr. Arnold Smith as Commonwealth Secretary-General.

According to a partial text of the final communiqué, published in *The Times* (London) on 8 May, 1975, the Heads of Government "laid particular emphasis on the opportunities for the Commonwealth to make a constructive contribution to the problems of Southern Africa and underlined the special responsibility of Commonwealth member countries to work together in the search for a resolution of the situation in Rhodesia".

The communiqué, as published in *The Times*, included the following section on the Rhodesian issue:

Heads of government re-emphasized that the objective for Rhodesia was independence on the basis of majority rule.

Heads of government reaffirmed their total support for the struggle of the people of Zimbabwe for independence on the basis of majority rule and pledged to concert their efforts for the speedy attainment of this objective.

They took note of the determination of the African freedom fighters, supported by African and other states, to achieve their objective by peaceful means if possible, and recognised the inevitability of intensified armed struggle should peaceful avenues be blocked by the racist and illegal regime.

The meeting noted that South Africa continues to support the rebel government by affording it the military and economic assistance on which its survival depends, and reaffirmed their view that South Africa should fulfil its international obligations and strictly apply the United Nations mandatory sanctions and withdraw its forces from Rhodesia.

Heads of government emphasized the importance of taking immediate practical steps to assist an independent Mozambique in applying sanctions, since the great bulk of Rhodesia's exports and imports is dependent on Mozambique's transit facilities. They were unanimously in favour of providing immediate financial assistance to the new Government of Mozambique.

They also endorsed recommendations that an initiative should be taken by Commonwealth governments at the United Nations to establish a programme of assistance for Mozambique in terms of articles 49 and 50 of the Charter.

According to other reports, the Heads of Government also gave a commitment to help not only Mozambique but also Botswana and Zambia to cope with the greater costs of the intensification of a sanctions campaign against Rhodesia, and they recognised the African National Council (A.N.C.) as the principal representatives of the Rhodesian people. (See, for instance, reports in *The Star* of 8 May 1975, p.18, and *To The Point* of 16 May 1975, p.9.)

On South West Africa and South Africa the communiqué included the following paragraphs (as published in *The Times*).

Heads of government were deeply concerned that South Africa continues to occupy Namibia illegally ... and in defiance of world opinion. Re-affirming that the fragmentation of Namibia was unacceptable, they recalled the obligation of the international community to maintain the territorial integrity of the territory and the right of its people to self-determination and independence.

The meeting looked forward to the time when the Government and people of Namibia might be welcomed into the Commonwealth, if that were their wish. Heads of government reaffirmed their total and unequivocal condemnation of apartheid and all forms of racialism. They welcomed the British Government's decision to comply strictly with the United Nations embargo on the sale of arms to South Africa and to terminate the Simonstown agreement.

CYPRUS - AN EASING OF TENSION?

The division between Greek and Turkish Cyprus will remain one of the world's most explosive divisions and could possibly cause future war and upheaval in Athens, Ankara and Nicosia. The months of February and March have been difficult months for the Turks, Greeks and Cypriots ever since the proclamation on 13th February of a provisional Turkish republic in the northern two-fifths of Cyprus. Since the Turkish initiative, the Cypriot Government has made repeated requests that the UN Security Council should take action. It has taken the Security Council over three weeks to produce its new resolution on Cyprus, but if, as seems likely, the Resolution which was approved on Wednesday 12th March, meets with the approval of both the Greek and Turkish Governments, then valuable time will not have been wasted.

The American arms embargo against Turkey imposed by Congress on the 5th February may well have been the catalyst for the establishment of the new Republic in Cyprus. On the same date Mr. Denktash, the Turkish Cypriot leader, asked the Turkish Government for permission to proclaim a Turkish Cypriot State and perhaps significantly, on the day before the former Turkish Prime Minister, Mr. Ecevit, had said that, if American aid was cut off, Turkey should abandon all conciliatory moves, refrain from withdrawing troops from Cyprus, and allow Mr. Denktash to set up an autonomous state. In setting up a provisional Turkish Cypriot Republic, the Turks have formalised the *de facto* partition of the Island and now control 40 per cent of its land area containing 70 per cent of its agricultural and industrial potential.

In response to the Turkish Cypriot proclamation, the Greek Cypriots called on the Security Council to introduce economic sanctions against the Turks. But this largely emotional response soon subsided with the result that after three weeks the new UN Resolution simply calls for a resumption of inter-communal talks between the Greek and Turkish communities under the auspices of the UN Secretary-General, Dr. Waldheim. Not by chance, the Resolution coincides with a renewed American peace effort. Dr. Kissinger saw the Greek Foreign Minister in Brussels recently and broke off his diplomatic round in the Middle East to visit Ankara. Meanwhile a senior official in the State Department has been active in the Aegean area attempting to reconcile the differences between Greece and Turkey on the Cyprus question.

Although the UN Resolution in itself has given rise to a certain amount of optimism, the fact that the Turkish Government has yet to resolve its internal political problems has cast a shadow over the situation. The Greek Government too is far from united, since it discovered that there are still officers in the Greek Armed Forces who would prefer a military regime to the present Government. Both the Greek and Turkish Cypriot leaders claimed a victory of sorts after the adoption of the Resolution and the official Turkish Cypriot radio claimed that the Resolution was a defeat for the Greek Cypriot side. In this assertion it appeared to have the support of 1 000 Greek Cypriot High School pupils who left their classes to demonstrate against the

Resolution through the streets of Nicosia. President Makarios adopted a more cautious attitude towards the Resolution when he said that though it was not "absolutely satisfactory", it nevertheless contained "positive elements for the furtherance of the Cyprus problem towards a solution". He also added that the Turkish side had failed in its efforts during the Security Council debate to prevent the internationalisation of the whole Cyprus question. The President indicated that one of the most constructive points of the Resolution was the confirmation by the Security Council of the recognition of the Cyprus Government and its disapproval of the Turkish decision to proclaim a separate federated Turkish Cypriot State on the Island. Mr. Denktash, however, said that any formula which would recognise or appear to recognise the Makarios administration as a Government of Cyprus would be unacceptable.

The decision in principle to resume the Cyprus talks is thus one more chance to prevent further deterioration of the situation on the island. A settlement will only be brought about if the Turks can be persuaded to make some territorial concessions. It must, therefore, be a major objective of UN, American and European policy to persuade the Turks to do just that, while persuading the Greek Government to move on some of the constitutional issues involved.

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SOME RECENT ACQUISITIONS IN THE LIBRARY AT JAN SMUTS HOUSE

BAERWALD, H.H.

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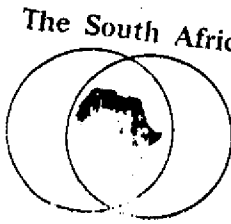
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