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British Interests and Third World Development

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overseas development institute

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CONTENTS

Tables

PREFACE

This paper was originally presented at a conference at Sussex University in November 1979. It was one of several country papers on the theme of 'rich country interests in third world development'. The others dealt with the USA, Canada, Australia, France, Germany, Holland, Scandinavia, Japan, and the USSR. Most of these will be published separately. A book bringing together summaries of the country papers, together with 'overview' papers, will be published in late 1980 or 1981. The project has been financed by the German Marshall Fund. Many acknowledgements are due, but in particular to those who troubled to comment on drafts (including Philip Hayes, John Healey, David Henderson, Guy Hunter, Tony Killick, John Odling-Smee, Stephen Sandford, Hans Singer, Martin Wolf and Robert Wood) and who typed and edited the manuscript (Patsy De Souza, Margaret Cornell and Christine Palmer). Responsibility for error is, however, solely that of the author.

I. INTRODUCTION

Arguments for a more positive approach by the countries of the industrial 'north' to the aspirations of the 'south' divide into those based on enlightened self-interest, and those based on morality. Although Western leaders have often acknowledged in general terms a sense of moral obligation to assist in alleviating the extensive poverty which exists in most developing countries, this has not been accorded high priority. Moreover, attempts by developing countries to utilise moral arguments in support of their demands for fundamental structural changes in the world economy have struck an even less responsive chord than earlier appeals for foreign aid. There has been some, modest, progress on some of the items covered by the north-south 'agenda', but negotiations have become increasingly acrimonious and unproductive. It is in this context that the Brandt Commission has argued that the development of poor countries is in the interests of the 'north' as well as the 'south'. It remains to be seen whether hard-headed decision-makers will be any more impressed by policy proposals now that they are couched in terms of the self-interest of developed countries. But at least it provides a politically more realistic framework for discussion.

This paper seeks to relate general arguments about rich country interests to the specific case of the United Kingdom. It tries to describe, and analyse, the salient British interests which are at stake in the 'third world', how they are changing, and how they seem to be perceived by policy-makers. The paper cannot be comprehensive; there are some issues which have an important bearing on British relations with developing countries, such as the treatment of black and brown people in Britain, which have to be treated with extreme superficiality in order to give adequate coverage to those questions which are currently more to the fore in 'north-south' negotiations. The 'interests' approach is also, necessarily, incomplete; while the aid budget serves many functions including export promotion, its motivation is imperfectly explained without some reference to a moral purpose. The fact that Britain's revealed comparative advantage in trade with developing countries appears to lie in the fields of armaments, whisky and usury should suggest to most of us that national trade interests cannot be treated entirely amorally. This paper will try to stick to questions of 'what is?' rather than 'what ought to be?' but in practice the two cannot be entirely separate.

Even approaching the question of 'interests' in a largely descriptive way begs substantial questions of a theoretical kind.(1) Decisions made or positions taken by governments 'in the national interest' may reflect sectional pressures rather than judgements about costs and benefits to the community as a whole. Trade policy questions are invariably considered in this way; aggrieved or ambitious groups of producers - sheep farmers, wine growers, car makers, arms salesmen - become 'the nation' for the purposes of policy making. The paper will distinguish, where practical, between 'national' and sectional interests but this will not be acceptable to everyone. Some, for example, would argue that in societies fundamentally divided along class lines concepts such as 'national interest' have little meaning except as an expression of the interests of the class which happens to exercise power. Even in societies where national policy represents a substantial consensus and where narrow sectional interests are subsumed in a broader approach to policy-making there may well be inconsistencies and contradictions in the determination of 'national interests'. For example, there may well be inconsistencies between policies pursued at a 'micro' level (the perceived need to preserve certain economic activities in the interests of 'self-sufficiency', 'regional balance' or whatever) and 'macro' level objectives (economic growth or price stability). Economists normally seek to encapsulate an array of policy objectives in a 'social welfare function'. Whatever the theoretical validity of this concept it is not easily rendered operational. There is in the UK no economic plan (let alone a more comprehensive statement of objectives, of the weighting of these objectives and of the relationship between them) and very little explicit discussion of overseas policy priorities. What particular policy-makers say or do may bear little relation to what seems to be the underlying drift of policy. One way of dealing with these complications is to distinguish between 'real' and 'perceived' interests. Many will, however, feel uncomfortable with the notion that it is possible for detached academic observers to identify 'real' national interests which decision-makers are too incompetent, stupid or corrupt to spot. Even when we can identify 'national interests' which are in some sense genuinely 'national' and 'real', there is then the question of deciding what kind of weight should be attached to the preservation of an international order within which 'national interests' (and a growing number of genuinely transnational interests) can be expressed. British participation in and support for the UN, the GATT, the IMF, the EEC and, embryonically, the North-South dialogue, implies an acceptance that 'national interests' cannot be reduced simply to case-by-case cost-benefit calculations (though there are some governments and some interest groups who will try to ensure that national interests are so reduced). Enough has been said to acknowledge that the concept of interests is slippery and elusive. The approach adopted in this paper is the somewhat cautious one of taking 'national interests' to be official policy positions where these can be identified and trying to assess what are the specific group interests which lie behind them, and possible inconsistencies between them.

Another basic conceptual problem which has to be treated in a very cursory manner is the question of what kind of development it is in which the UK might have interests. A distinction might be made between 'development' in the widest sense and the specific set of policy issues discussed under the general heading of the 'north-south agenda'. But even as far as the latter is concerned, the costs and benefits to the UK of, for example, trade liberalisation to favour less developed countries (ldcs), supporting higher commodity prices, more aid to the poorest countries, or of a code of conduct for multinationals, vary greatly and there is also a great deal of variation in terms of the distribution of costs and benefits among and within developing countries themselves. There is a burgeoning literature on these questions but it cannot be dealt with satisfactorily here. Rather, the procedure followed is to take the joint negotiating position of developing countries in international negotiations as representing a considered view of how their own development can best be fostered by international action. There are, however, those on the 'liberal right' and also those on the 'Marxist left' (for quite different reasons) who seriously question whether the developing countries will actually benefit substantially, if at all, from many of the reforms proposed. Both groups are sceptical about whether it is possible to promote 'development' through international action or within developing countries without first adopting a 'correct' mode of economic organisation. Important, indeed fundamental, issues are raised by these arguments. Ideologically determined views about what constitute 'sound' policies for developing countries to pursue - to become more market-orientated, or to 'de-link' from the capitalist world - clearly constitute an important ingredient in the policy positions of 'north' and 'south' in international negotiations. But their importance should not be overstated. Western policy-makers have so far shown no more enthusiasm for the ideas of 'liberal' economists (such as lifting trade and immigration barriers), let alone of revolutionary Marxists, than they have for the negotiating demands of developing countries as they stand at present.

There are other problems of both definition and information. The availability of factual information presents some problems in the UK since there is a tradition, underwritten by legal sanctions, of official secrecy in matters involving bureaucratic and ministerial decision-making. Statistical source data are also of variable quality. There is a rich pool of trade and industrial production data but the two have only been correlated for the years since 1970, and then not (in published form) by countries of origin and destination. There is no published information on the country origin of overseas invisible earnings. There is detailed information on the stock and flow of overseas investment but it excludes important categories (oil and insurance companies). It can be supplemented by information from published company accounts - most large companies volunteer information on their overseas assets and earnings - but not in a consistent way. The authorities are understandably coy about disclosing the destination of arms sales though the overall value of the trade is known. The selective availability of data inevitably imparts a bias to a survey of interests, to concentrate upon the visible rather than the important.

The boundaries of the subject are also likely to be indistinct for other reasons. While the 'third world' may be a meaningful concept for academics, diplomats and humanitarian lobbies, it has only limited operational relevance. Most commercial and political interests are country or region specific. Businessmen and Western governments may be sensitive to the importance of Brazil, Iran or Nigeria, while remaining quite indifferent to the fate of the majority of developing countries which are small in population, poor in resources and politically insignificant. Some of Britain's most important third world interests (and problems), moreover, concern areas which fall inconveniently between 'north' and 'south': Hong Kong, South Africa and Zimbabwe or the Persian Gulf shekhdoms. Recent concern about 'newly industrialising countries' is as much about Eastern and Southern European trade competition as about developing countries narrowly defined. The main beneficiary of the Generalised System of Tariff Preferences for developing countries, Yugoslavia, is an associate of the OECD. None the less, there is a large number of important international issues on which developing countries, whatever their differences of interest, try to negotiate as a group: from the Tokyo Round in GATT to the regulation of radio wave bands, from commodities to patents' law, from shipping to sport.

It is difficult also to know where to define the limits of many British private interests. What are officially classified as 'British' banks include many overseas-owned banks which operate in the City on an 'offshore' basis in eurodollar markets, having little or no integration with the domestic banking sector. The recent action of the US authorities in seeking to freeze Iranian assets in US banks overseas has muddied the waters even further. Multinational ownership generally makes a nonsense of narrow definitions of'national interest'. Shell oil company cannot be meaningfully said to be 'British' or 'Dutch'. Its interests are transnational rather than national.

There is also a difficult problem in separating out the cyclical from the trend, and the ephemeral from the enduring. It is particularly awkward to establish any kind of long-term perspective for the UK (and not only in this field) because of a preoccupation with a series of short-term economic crises, and a corresponding lack of any medium- or long-term planning or even thinking. Also within the last fifteen years there have been four changes of government and of political direction. Although policy towards developing countries has been well in the background in domestic politics, each new administration has changed the emphasis of policy and, at a more practical level, the status and functions of the Ministry of Overseas Development. Superimposed on the short-term electoral cycle and economic cycles have been fluctuations in fashion. North-south issues were of some importance in Britain in the early 1960s when aid programmes and development thinking first became seriously established, and again (to a lesser extent) in 1969-70 when the 'development lobby' mobilised strongly against aid cuts. Then in 1974-76 the OPEC oil producers obliged Western governments including the British to devote serious attention, at the highest level, to the damage which some developing countries could inflict on them and to serious consideration of developing country demands. Since then interest has declined.

However, whatever the ups and downs of fashion and circumstance, there does now seem to be a distinct shift to a less positive attitude to relations with developing countries. The previous Conservative government, in 1970, was launched with a Queen's speech which promised to 'pursue an expanding aid programme and . . . seek agreement on tariff preferences for developing countries'. The equivalent occasion gave the present administration an opportunity merely to declare '(My ministers) have regard to the need for trade with and aid to the developing countries'. The current Conservative administration has subsequently shown in several specific aspects of relations with developing countries - aid, immigration controls, cultural policy and in formal 'north-south' gatherings - that it accords them low priority. This is not solely the result of a change of government and it is not peculiar to Britain. In the United States in particular there has been a strong strand of opinion, perhaps most closely associated with Senator Moynihan but recently reinforced by domestic reaction to events in Iran, which regards the political and economic aspirations of the 'third world' as at best an irritant and at worst a dangerous threat to the West. This point of view stands in stark contrast to the view of mutual interests propounded in the Brandt Report. The present paper will try to evaluate the relative strengths, and prospects, of these two approaches in a UK context.

The approach followed is first to try to locate current British interests in developing countries within a wider geographical and historical framework (Chapter II), then to discuss the policy-making mechanisms for translating interests into decisions (Chapter III), and then on an itemised basis to describe and evaluate the main components of British interests.

Notes

(1) There is an admirably clear and succinct discussion of the concept of 'national interest' in Jan Tumlir, National Interest and International Order, International Issues No. 4, Trade Policy Research Centre.

II. BRITAIN'S CHANGING ROLE IN THE WORLD

Britain's distinctive role in relation to developing countries derives from several interrelated historical developments: relative economic decline (which some would argue is becoming absolute); the liquidation of Empire and its legacies; and an economic and political realignment towards Western Europe.

Relative economic decline

Future historians may well conclude that the period from 1945 to the present was for Britain one of unparalleled improvement in living standards, in investment performance, productivity growth and structural adaptation. They would probably also note that the gap in real living standards between Britain and at least the more populous developing countries had widened in this period. But attitudes towards national economic performance are formed primarily by comparison with a reference group of similar nations. A much quoted, leaked, foreign office despatch by a retiring Ambassador to France caught the flavour of the pessimism produced by relative decline; 'we are not only no longer a world power, but we are not even in the first rank even as a European one. We are scarcely in the same league as the Germans or the French. We talk of ourselves without shame as one of the less prosperous countries of Europe. The prognosis for the foreseeable future is discouraging'.(1) In per capita income terms Britain has been steadily overhauled by almost all the other industrial countries including Japan. In fact the situation is not quite so bad if we look at comparisons of per capita income which take account of the distortions introduced by converting to dollars at nominal exchange rates (see Table 1). The conventional measure understates real per capita income in Britain (and most developing countries) and overstates it in France, Germany and most other European countries. Per capita income figures are also misleading since living standards are maintained not only by income flows but also by the size and quality of the stock of private and social capital. For example, the housing stock in the UK - with some appalling exceptions - is of high quality in terms of planning and building standards in comparison with Japan or Italy, let alone newly industrialising developing countries. These factors mitigate the extent of relative decline but not its existence. The influence of relative decline is much more evident in the industrial sector, though one should not make the common mistake of measuring welfare and national economic performance only in industrial terms. Britain's share of world manufactured exports has been steadily declining throughout this century (from 33% in 1899 to 9% in 1978). The pace of decline has recently accelerated. From 1960 to 1975, the UK has experienced a decline in its share

Table 1 Indices of per capita GDP converted to US dollars at official exchange rates and per capita GDP in 'International' dollars, 1970 and 1975 (US=100)

	1970		1975	
	US $	International $	US $	International $
India	2.0	6.9	1.9	6.9
Korea	6.1	12.1	8.2	16.9
Iran	18.4	20.3	24.6	40.8
Italy	40.7	49.2	40.4	47.1
Japan	56.7	59.2	63.9	65.1
UK	53.5	63.5	53.6	62.0
France	77.8	73.2	84.3	79.5
Germany	93.3	78.2	93.3	79.2

Source: Kravis et al. International Comparisons of Real Product and Purchasing Power, Johns Hopkins University Press, 1978.

of OECD manufacturing output from 9.6% to 5.8% (in constant 1970 prices) at a time when the OECD's share of world manufactures also fell.

The wider causes and effects of this relative decline are not for consideration here, but it has affected Britain's relations with developing countries, and their perception of them, in several ways:

(i) Britain is, quite simply, becoming relatively less important, as a market or a provider of resources and as an influence in rich country policies. As an aid donor for example, Britain has fallen, in terms of a ranking based on absolute magnitudes of net aid flows, to sixth - in 1962 it was third - behind Canada and only fractionally ahead of the Netherlands and Sweden, though it is still relatively more generous (in terms of percentage of GNP) than two of the three countries which have overtaken it, Japan and Germany. British influence within international institutions such as the IMF - where it nominally had, until recently, considerable influence reflected in the second largest quota - has been greatly undermined by the fact that recurrent economic difficulties have invariably put the British government in the position of supplicant, pleading its own case from a position of weakness.

(ii) Experience of relatively poor international trade performance has engendered considerable pessimism about Britain's ability to benefit from a reform of relations with developing countries, even when this has elements of self-interest for Western countries as a whole. This has been a strong reason behind scepticism about the 'pump-priming' character of improvements in developing countries' commodity earnings capacity, or market access for their exports of manufactures, or an expansion of untied multilateral aid. Even, it is argued, if the costs of the pump-priming are equitably distributed, Britain's share at the margin of new export earnings would be less than its share of the costs and probably very small in absolute terms (this is to compress greatly a more complex argument about market shares and import and export elasticities). The evidence for this pessimism is by no means overwhelming; the British share of world trade in manufactures stabilised in the 1974-79 period, and appears to have increased in the most rapidly expanding (OPEC) developing country markets.

(iii) A major influence from public opinion (see below for more detailed review) is the widespread feeling in Britain that it is no longer a 'rich' country. Associated with this is the sense of grievance that Britain's relative decline has not been adequately recognised by the 'new rich' (mainly Japan and Germany) and that as a result it carries a disproportionate share of the 'burdens' of the 'third world' (in addition to other 'burdens': defence and European Community spending). Politicians have done little to correct any misconceptions. Britain's share of net official development aid in relation to GNP, for example, is about average on a measure which itself corrects for changes in real incomes. The share of developing country imports of manufactured goods in total imports of manufactures is no higher than the OECD average, though fairer 'burden sharing' has been a major plank of government policy in the GSP and textile negotiations. Public debate (if it can be called that) on Commonwealth 'immigration' questions or on refugees usually proceeds from the false assumption that there are numbers of non-white residents in Britain vastly in excess of the recognised figure of 3.5% of the population and that no other developed country has such a social 'problem' or economic 'burden'. A point of more immediate policy relevance is that Britain's relative 'poverty' has sharpened political sensitivity to the issue of differentiation between developing countries and this has become a major theme both of trade and aid policy.

(iv) Britain's relative decline has been gradual and long-term but it has been punctuated by short-term financial crises, as the balance of payments has carried the strain of accommodating Britain's declining international competitiveness. Thus, in practice, British policies towards developing countries have often been determined not by long-term considerations but by the pressures of short-term crises. For example, exchange control restrictions on private overseas investment (now lifted) did not originate in any comprehensive calculation of gain and loss to the UK but in fears of the short-term impact on the balance of payments of capital outflow. Balance of payments crises have also been used as the pretext for ensuring that the majority of bilateral aid is commercially tied, although this has meant that the other objectives of the aid budget are much more difficult to meet, and despite considerable improvement in the balance of payments position thanks to North Sea oil.

The overall effect of relative economic decline on British policies towards developing countries has so far been mainly negative. It has contributed to a general collapse of confidence so that, for example, new sources of manufacturing competition are seen almost entirely in defensive terms. It has produced a climate of opinion in which developing countries are seen, not as they are by Brandt as part of the cure for the problems of Western economies (as a stimulus to exports, or to more efficient resource allocation, or to combating inflation), but as part of the problem (as a burden on the budget or the balance of payments or as a source of unemployment). 'Getting the economy right' has become a prior condition, not a rationale, for more positive policies.

Empire and Commonwealth

As the leading colonial power, Britain has links with the 'third world' which are of a quite different character from those of the developed countries which had no empire, and more far-reaching that those of countries like France or Holland, which did. The imperial legacy is still of considerable importance in the definition and perception of interests in several respects.

(i) The Commonwealth ('old' and 'new') is still important, out of proportion to its role in the world economy, as a market for British goods and as a recipient of British private investment. In both senses, however, the decline has been rapid and with the expiry of Commonwealth preferences institutional economic ties have gone.

(ii) There are still unsolved problems and residual obligations which absorb a great deal of political attention and goodwill. The most obvious case is Rhodesia. But there are others. For example, despite identifying Latin America as an area of considerable potential for British interests, the relevant government officials and ministers still spend an inordinate amount of their time responding to the problems created by 2,000 Falkland Islanders rather than concentrating on the potential needs of 300 million Latin Americans.

(iii) The political significance of the Commonwealth to Britain is now modest except in the context of Southern Africa. Churchill depicted the Commonwealth as one of three equal rings - Europe and the United States being the others - between which Britain was the link. Few would seriously advocate such views today. But in terms of 'north-south' issues the Commonwealth is of some importance in bringing British ministers (and the public) directly into contact with some of the most articulate and effective 'third world' leaders.

(iv) The most important effects of the imperial heritage are intangible. Some of these are negative (racism and a generalised resentment towards 'ungrateful' countries which Britain 'built up' and to which it then 'gave' independence). Others are positive. There are, for example, large numbers of people who have acquired a positive commitment to development as a result of work in colonial territories in fields such as tropical medicine.

The context of Western alliance and European integration

Britain's main strategic political and economic interests are now firmly located in the industrialised world. This means that north-north relations are invariably given priority over north-south. Also, in north-south terms, British governments have worked for a common line amongst industrialised countries and, in particular, have tried to stay close to the United States. British entry to the EEC has also had a major influence which is only just coming to be felt. Amongst the more important factors are:

(i) Britain no longer has an independent trade policy, at least on the import side. Tariffs and preferences, quotas, anti-dumping procedures and farm levies are now negotiated and administered through the Community. At the time of entry it was widely feared that this would have negative effects on British trade links with developing countries because of the 'inward looking' character of the EEC. But the effect of the Community has recently been more to restrain the British from pushing too strenuously for restrictions against developing country products, except in agriculture. There are strong protectionist forces in the rest of the Community as in Britain but outside agriculture there is probably now a better balance of interests, with capital goods exporters having particular influence in Germany.

(ii) Britain has been obliged to accept, as the price of entry, changes in its relationships with developing countries which were mutually beneficial, such as its trade in cane sugar.

(iii) British governments have also accepted, albeit with some adaptation to meet Commonwealth interests, the Community's geo-political concentration on Africa and the Mediterranean basin rather than on Asian or Latin American countries. If the Community expands further as seems likely, to take in Greece, Spain and Portugal, this will further shift the EEC's centre of gravity towards the Mediterranean and will probably strengthen the tendency to see relations with developing countries in 'regional' rather than 'global' terms.

(iv) The European Community serves increasingly as the focus for a common line on 'north-south' questions such as commodities. There are occasions, however, when the ambition to be regarded still as a great power at the 'top table' gets the better of British political leaders. One of Britain's main negotiating objectives in the CIEC 'north-south' talks in Paris was that it should have a separate seat from the EEC. But since that embarrassing episode the Community has been regarded more for its usefulness in 'north-south' terms as providing political cover, and as helping Britain keep a low profile.

To summarise, the context in which Britain's interests have to be seen is one in which British political, economic and military power, esteem and self-esteem are considerably diminished from the time when 'development' first became a topical issue in the early 1960s. One temptation in these circumstances is to over-react, to exaggerate the extent of British decline and difficulties and to minimise the importance which British policy positions can have. At the very least Britain is a constituent member of the world's largest trading group, the EEC, and is in a strong position to influence its policies towards the rest of the world for good or ill.

Notes

(1) Despatch by Sir Nicholas Henderson. Reproduced in The Economist, 2 June 1979.

III. INFLUENCES ON POLICY FORMATION

'Interests' do not exist in a political vacuum. National or sectional interests have to be geared to the decision-making machinery. In evaluating different influences on British policy-making in a north-south context, attention is given here primarily to the way in which different Whitehall departments and ministers interact and bring to bear their own bureaucratic interests and those of private interests which work through them. Much less attention is given to the work of political parties or Parliament or public opinion. Although Parliamentary Select Committees have been an immensely valuable source of enquiry and analysis of policy, it could not seriously be claimed that politicians, other than directly affected ministers (and often not even they), play a major role in the policy formation. Britain also has one of the most extensive and sophisticated networks of NGOs, but while they have had a good deal of influence on topical issues involving economic distress or human rights abuse at the level of individual countries, their influence on the wider economic issues has been small.

Bureaucratic decision-making

Analysing the workings of Whitehall is like navigating a maze, blindfold. Public knowledge of the process of government is largely confined to leaks and gossip. Academic analysis is rudimentary and usually out-dated.(1) Under pressure from Parliamentary Select Committees, officials have refused to divulge the existence, let alone the decisions, of inter-departmental Cabinet and official committees, even the most innocuous. What follows is therefore largely hearsay, based on limited personal experience or on what the Select Committee and others could extract.

The judgement of the Select Committee on Overseas Development has been that relations with developing countries are worked out on a largely _ad hoc_ basis in response, for example, to the need for briefs for an UNCTAD or CIEC meeting:'your (Select) committee has been quite unable to establish any capacity or administrative arrangement for long term strategic inter-departmental liaison on foreign economic policy: much less have they been able to establish the means by which British foreign economic policy is co-ordinated with British domestic economic affairs'.(2) These are deficiencies not confined only to this particular problem. The strength of the British machinery of government in general is its efficient dispatch of day-to-day business. Attempts to implant 'think tanks' or 'planning departments' within individual departments or on the Whitehall machine as a whole have usually encountered considerable problems. In the case of north-south relations, the problems have been compounded in several ways.

First, there has never been sufficient political support for the idea that all the various policy strands - political, trade, financial - should be pulled together in one independent Ministry. It was the view of those (a working group of Fabians under Lord Balogh) who originally pioneered the ideas of a Ministry of Overseas Development before 1964 that it should not be just an aid Ministry but a department concerned with all aspects of policy affecting the Third World. That battle was given up, and it is possible that even if a strong ministry had been set up the short-term commercial and political interests would still have predominated. The Ministry, now the Overseas Development Administration, has therefore been one rather small voice among several (and, moreover, is far from being independent even in aid policy). The Foreign Office comes nearest to exercising a co-ordinating role in north-south terms, at least on a tactical level, but its lack of responsibility for economic policy-making is a deficiency.

Second, there is a gap in the British decision-making machinery, which should be occupied by a department concerned with long- or medium-term economic planning. Since the demise of the National Plan and then of the Department of Economic Affairs in 1970, responsibility for economic policy, both in its internal and external aspects, has rested with departments whose recognised field of competence and authority is in short-term economic management (the Treasury) or in day-to-day management of commercial policy instruments and in liaison with manufacturing industry (Trade and Industry). Despite the efforts of these, and other departments, to engage in 'strategic' thinking, there is nothing in Britain which adequately performs the role of the French Commissariat du Plan or even the German Ministry of Economics.

Finally, north-south issues have never been seen as important enough to merit the concentrated attention of the Prime Minister. Constitutional scholars as well as those more closely involved have described the British system as one of 'prime ministerial government'. When the Prime Minister's interest is engaged, and through him his staff, his senior colleagues, and Cabinet Office personnel, the potential, at least, is there to create a clear ordering of priorities. The formulation of British positions on major issues in the European Community, for example, involves a decision-making process of considerable complexity but it appears to function reasonably well, not least because the main issues are constantly before the Prime Minister and the Cabinet. North-south issues simply do not have that status. In the 1964-70 Labour Government, the Prime Minister claimed to have a special interest in the subject. He had even written a book about it. But in his memoirs of the period aid and development questions merited less than half a page out of seven hundred. Prime Ministers are usually directly engaged only on the occasion of a major official visit or at international Heads of State conferences (when this is one of the many items on the agenda), when lobbied by a particularly influential pressure group (such as the textile manufacturers), or as a subsidiary aspect of bigger issues (such as public expenditure cuts).

In the absence of any apparent overall direction, a great deal then depends on which is the 'lead department' for which particular problem, and on who elsewhere is consulted, and at what level through inter-departmental committees. In some cases responsibilities are fairly easily identified: ODM for aid, Department of Trade and/or Industry for textiles. For other subjects, responsibility is more widely diffused: commodities fall to Trade (general policy and Common Fund negotiations), Industry (metals), Agriculture (agricultural commodities), ODM (Stabex), Treasury (IMF Compensatory Finance Facility, and anything which requires public money) Energy (oil), and even the Foreign Office (which, for example, drafted the 'Kingston initiative' on commodities in 1976). It should also be stressed that any short account of government decision-making is bound to be misleadingly oversimplified. The emergence of a 'departmental view' is itself the product of a good deal of debate within a ministry between geographical, functional and research desks. For example, the biggest differences of view over Britain's position at UNCTAD could well be within the Department of Trade, between the section responsible for, and eager to make a success of, the negotiations and other colleagues.

The <u>Overseas Development Administration</u> is primarily responsible for aid administration, though its Ministers and officials are represented (now as part of a Foreign Office team) in inter-departmental consultations affecting other 'third world' issues. It has, for example, played a major role in negotiating and re-negotiating the Lomé Convention, which involves considerably more than merely aid. The department has had a complex inter-relationship with the Foreign Office which has been modified several times. In the latter days of the 1974-79 Labour Government the department had its own Minister (<u>of</u> Overseas Development) outside the Cabinet, and was in effect an independent Ministry, albeit represented in Cabinet by the Foreign Secretary as the Minister <u>for</u> Overseas Development. Under the Conservatives the integration is much closer; the Administration is responsible only to a Foreign Office Minister. But at an administrative level the process of assimilation has not yet been worked out. It will probably stop short of integrating staffs, if only to protect the Diplomatic Service from being 'diluted' and aid administrators being packed off unwillingly on overseas postings; much aid administration is already carried out in the field by diplomats, though not always with great enthusiasm. Politically the Ministry has been, since its inception in 1964, in a weak position and it became even weaker in 1967 with the loss of its Cabinet seat. It has few natural allies in Whitehall. It has little support amongst the general public. Few politicians are very interested in its work. This has placed its Ministers in a difficult position. Either they try to operate a purist, developmentally sound, aid policy which runs the risk of antagonising other, more powerful Ministries, driving the Ministry into isolation and drying up its source of funds. Or they try to win allies by using the aid budget as a vehicle for British interests, for stimulating exports and employment, and for satisfying some of the political objectives of the Foreign Office. It is a measure of the success of the last Minister of Overseas Development that she managed to increase the aid budget in relation to GNP and public expenditure, despite mounting economic difficulties, while at the same time developing a clear poverty-focussed aid philosophy. But a price had to be paid, for example in the allocation of 5% of the aid budget for use by the Department of Trade in 'credit mixte'. The 1974-79 experience demonstrated the Ministry's precarious dependence on one active minister (and to a lesser extent on the political support of a left-of-centre government).

The Department of Trade has recently moved much more to the centre of the north-south stage, reflecting the priority given by developing countries to trade issues. The Department has responsibility for trade negotiations and commercial policy, for issues such as shipping and insurance, and, of particular importance in this context, for UNCTAD. It has also now acquired responsibility for prices and consumer protection, formerly under an independent ministry. Departmental philosophy could best be described as 'working with the grain' of British business interests in trade matters.(3) The Department has, however, changed somewhat in character in recent years. Until the 1970s, the government's approach to trade issues was 'arms length' and non-interventionist. The increased importance of trade with Communist and OPEC countries has drawn ministers and officials much more into active trade diplomacy. There has also been something of a change in emphasis from free trading to mercantilist ideas. There is still a strong cadre of trade officials who communicate to their Ministers a strong belief in the need for Britain to play a constructive role in the process of freeing world trade. But there are now others who argue for a much more abrasive and nationalistic approach to trade policy. This school of thought derives its support from a variety of sources. One was the receptivity to these arguments of Labour ministers, though preliminary indications are that Conservatives also find them not altogether uncongenial. More important is the influence of British businessmen to whose complaints trade officials are extensively exposed. Many businessmen believe (to quote the CBI) that 'there is a greater willingness on the part of governments in other countries to bring about . . . the propagation of interests of (national) industry . . .'(4) There is a large store of travellers' tales, no doubt greatly exaggerated in the retelling, of the apparently limitless powers of officials in Japan, France, Italy and most newly industrialising countries to block troublesome imports and to promote their own country's exports. It is but a small step to accept that Britain needs its own 'department of dirty tricks' (in the form of aid-tying for exports and non-tariff barriers for imports). The Department has not in general been noted for taking a positive view of the impact on British trade interests of developing country demands for reform of the trading system, and this has been reflected in the position which Britain has taken at UNCTAD. A further influence in this direction is the Department of Industry. The two ministries are closely linked institutionally, by common services and mobility of personnel and officials work closely together. The Department of Industry sees its main job as relaying to Whitehall (and to the Cabinet) the views of British industry. In recent years, fears of deindustrialisation have caused the Department of Industry to speak with an increasingly strident voice, when in defence of sectors which feel threatened by international competition. As far as developing countries are concerned its main role has been to reflect the views of both sides of industry about 'disruptive' imports, and its Chemicals and Textiles division formulated, in response to the demands of the industry, the British position in the Multi-Fibre Arrangement negotiations. It is important also in determining policy on commodities questions as they affect metals, trying to pull together, where they diverge, the interests of mining companies and industrial users.

The Treasury (and the Chancellor in Cabinet) is immensely influential because of its responsibility for public expenditure and overall economic management including the balance of payments. The Treasury maintains effective control over the Overseas Development Ministry/Administration through annual expenditure ceilings and tight control over aid terms. Its control over expenditure gives it a decisive say even when quite modest additional sums are involved (as with the Common Fund). It also 'leads' on all matters in the field of international finance, such as developing country debt or IMF reform. A Treasury nominee sits on the Boards of the IMF and World Bank. In international monetary affairs the Treasury also acts on the advice of the Bank of England, which in turn acts on the advice of the City and particularly the banking community. The Bank is particularly important in providing assessments for Whitehall of the economic prospects of particular countries. Its banking constituency has a powerful voice in Whitehall when it comes to advising the British Director to the IMF on conditions for borrowers; there was a time during the last Labour government when the British Director was urging conditions of maximum austerity on developing country borrowers while the British government was itself seeking to ease the conditions applied to itself. The Bank and Treasury also 'lead' on policy towards overseas investment (formerly through foreign exchange control regulations and tax provisions) and Britain's overseas sterling balances, both of which have been major issues in British relations with developing countries. There are in fact few decisions, except for relatively minor matters of allocation within the ODM budget or modest commercial policy actions (which involve quotas not subsidies), which do not require the support of the Treasury. It is entirely proper that British major economic interests should be subject to disciplined accounting. The fear of critics of the Treasury has always been that its preoccupation with Britain's short-term economic management has caused it to lose sight of longer-term economic interests.

The last of the major departments is the Foreign Office. The FCO has been in the ambiguous position of being involved in almost all aspects of external policy, economic as well as political, while having virtually no direct policy implementation role. It has had influence rather than power but the influence has been considerable. It has been considerably increased under the Conservatives with two ranking Cabinet Ministers and with the acquisition of the ODM. The FCO's role in north-south issues has been two-fold. The first is to coordinate: 'it was explained to your committee that it was the "particular role" of the FCO to try to coordinate and articulate policies . . .'(5) The FCO performs this role by means of a series of functional departments (Trade Relations, Financial Relations, Cultural Relations, Science and Technology, Marine and Transport, etc) which are supposed to act as a link between Whitehall ministries and the outside world. Financial Relations (FRD) is the main 'north-south' department within the FCO itself. The FCO's coordinating role is important since there are few areas of international cooperation into which North-South (and East-West) politics do not now intrude. But the task is often largely a mechanical one, ensuring (to take a hypothetical example) that officials from the Department of Environment at a world conference on traffic management do not take the wrong line on the Palestinians or commit Britain to the New International Economic Order (as opposed to 'a new international economic order'). The CIEC involved this kind of exercise on a grander scale: the simultaneous orchestration, by the FCO, of many well rehearsed, but diverse, tunes.

The FCO has another more substantial role, which is to inject a wider international awareness into domestic discussion of issues which have both domestic and international implications. The FCO is the Whitehall department where there is likely to be the greatest appreciation of the usefulness of 'goodwill' in international relations, of maintaining some sort of 'dialogue' with presently neutral and unimportant but potentially hostile and important developing nations, and of international order in the widest sense. It argued, through its Ministers, for a positive approach to the Common Fund, at least when shorn of its offensive features, on the grounds that this was an inexpensive way of giving developing countries what they appear to want. It has also played an important role in trying to reconcile external and internal pressures and interests in trade adjustment issues. But in its dealings with the ODA the FCO is likely to argue for less politically disinterested aid allocation, and for policies to developing countries which harmonise as closely as possible with those of the EEC and Western countries in general.

Other Whitehall departments also have important activities with implications for developing countries: the Home Office (international telecommunications, and immigration control); Education (overseas student fees); Agriculture (tropical products and especially sugar); Defence. Even the regional departments (Wales, Scotland, Northern Ireland) can have a weighty impact, especially when trade issues are discussed, each having separate Cabinet seats (and their own shirt factories to protect). There are in addition important semi-independent bodies such as NEDO (the National Economic Development Office) or BOTB (the British Overseas Trade Board) or formally dependent bodies such as the ECGD (Exports Credit Guarantee Department).

Taking the picture as a whole, however, the view of the Select Committee was that the structure of decision-making on north-south issues is so fragmented as to prevent an adequate appreciation of Britain's overall long-term interests. This is almost certainly a harsh judgement, probably a product of frustration resulting from the civil servants' reluctance to reveal the mysteries of Whitehalll decision-making. Whatever the weaknesses of the British administrative machine, they do not primarily lie in the area of poor coordination. A more charitable verdict is that Britain's long-term interests in relations with developing countries are not all that clear. And in the absence of any strong directive from senior Cabinet Ministers to officials to deal with the subject positively and as a matter of priority, the tendency is to be defensive and cautious, and to be more concerned with making neat tactical moves than bold new initiatives.

Pressure groups

Relative to the USA, open public lobbying by business is less developed in the UK, while the degree of integration of business interests with the process of official decision-making appears less than in France or Japan. But on many of the issues with which we are concerned industrial lobbies have managed to align government policies with their own interests.

The main representative body for business is the CBI. The CBI is a loosely federated body which represents business opinion somewhat uneasily. Most of the biggest British multinationals make little use of it. Some (eg GEC) have opted out of it altogether. The most effective industrial lobby in north-south trade at present, the textile and clothing manufacturers, have their own effective machinery. But the CBI comes nearest of any bodies to expressing the views of manufacturing industry as a whole. It has formulated a detailed statement of its members' objectives and interests in developing countries and these views are likely to be influential with Conservative ministers.(6) The main unifying theme is that 'British relations with the Third World must be based on the principles of the free circulation of goods and of the "social market economy" - free and fair competition'. This has led the CBI to a forthright rejection of the more dirigiste features of the NIEO. But it is no more enthusiastic about 'low-cost' imports which are considered 'unfair' (because of lack of reciprocity); it has recently published a guide for its members on how to obtain action against 'disruptive' imports. This is just one sign of the strong protectionist tide currently flowing through the CBI (at least as regards selective rather than general import controls). In one of the few genuinely controversial debates ever held at an annual CBI conference, there was a successful revolt this year by delegates led by the footwear manufacturers against the relatively free-trading line of the platform. The CBI's most recent statement of policy, published in a discussion document,(7) expressed particular concern about the emergence of 'supercompetitive' industrialising countries and argued under the slogan of 'fair trade' for more extensive use of import restrictions. The British Institute of Management has offered similar thoughts.

The CBI has also argued strongly for the encouragement of overseas private investment, urging that there is 'an illogicality in promoting a policy of official aid to developing countries while discouraging private investment . . . strengthening the economy of the recipient ultimately benefits many of Britain's competitors who are not only allowed to invest freely overseas but are given specific incentives to direct investment to developing countries'.(8) Its attitude to aid as such is not overtly hostile; there is, however, no suggestion that it should be increased, but rather that (subject to serving its moral purpose) it should be 'increasingly devoted to projects of benefit to Britain's trading interests'. In particular it should be increasingly tied, switched to non-Commonwealth countries where there are 'commercial and investment opportunities' (preferably for exports which would not be purchased otherwise), and concentrated more on infrastructure projects in countries which are 'rich in natural resources but lacking in communications'. In general, the message from businessmen is that, while a moral objective in external relations should be respected, Britain has probably gone too far in that direction and now needs to be tougher in order to protect British interests (or, at least, theirs).

What is far more important, however, than the general line of the CBI is the day-to-day influence of particular firms and industrial associations. Despite the complaints of lack of assistance and the ideological posturing on all sides, British governments of both parties work very closely with industrial interests in their overseas operations. The sense of Great Britain Ltd. is strong. It is reinforced through a whole series of semi-formal, semi-official committees. For example, under the British Overseas Trade Board, British commercial relations with, say, Latin America are guided by a committee (in this case under the auspices of Canning House) of businessmen, bankers and civil servants. In the commodities field there are advisory committees containing industrial users, mining companies, civil servants and other interested parties. For import-competing industries, NEDO sector working parties have provided a similar function. The most effective articulation of interests is likely to be less formal still. The biggest British-based multinationals regularly benefit from, and reciprocate, briefings of confidential information. The pressures have increased in recent years for officials not only to advise, but to try to orchestrate the activities of British companies in large 'jumbo' projects in non-OECD markets in order to discourage them from competing with each other - the 'chosen instrument' approach. The tendency for trade with developing countries, both in imports and exports, to be planned or regulated by the state has drawn the government and national business interests closer together.(9) It is most unlikely that a Conservative government will change the less formal aspects of this corporatist development.

The influence of the trades' unions is much more circumscribed, especially under periods of Conservative government. The collapse of the Social Contract in 1975-76 deprived the TUC of major involvement in the determination of overall economic policy, except through the sector working parties of the NEDO. But the TUC's views are of some interest partly because it is used much more as a policy vehicle by its constituent members than is the CBI and partly because of the influence of trade unions on the Labour Party. The TUC Annual Report (1979) takes as a major theme the need for a revival of economic growth and the mutuality of interest between Britain and developing countries in achieving that end. It proposes that the UK should 'take a lead in seeking major changes in the system of international finance with a view to the promotion of growth in the developing countries'.(10) The TUC supports a doubling of net official development assistance by 1982 to reach the 0.7% of GNP target. The impact of this positive support is somewhat limited by the implications of another passage in the Report which praises the (Labour) government for having 'moved closer to the detailed selective type of trade policies advocated by the TUC . . . in steel and textiles . . . Anti dumping policy action and voluntary restraint agreements . . . in sectors such as motor cars, footwear and televisions'.(11) The views of the TUC on adjustment in general terms are put in a balanced way; 'a policy which severely limited access to industrial countries' markets would be very damaging, although safeguard measures of a temporary and selective character are essential to control instances of market disruption. Measures to promote adaptation and change will also be required.' But in practice the main effect of the selective import controls which it favours has been to bear differentially harder on the newly industrialising countries. Much the same could be said of the TUC's proposals for linking access to markets to the observance of ILO labour standards. The argument is put in humanitarian terms and is probably so motivated, but this kind of linkage could so easily be used as a form of disguised protectionism. This problem encapsulates the dilemma facing the more enlightened leaders. On the one hand, they have a general philosophy which is outward-looking and expansive, but, on the other hand, the pressures from below are for immediate action to defend jobs and incomes in the face of whatever seems to threaten them.

What is significant about the representations of industrial business and labour interests is the manner in which both ideology and the interests of sub-groups have been allowed to stand in the way of a straightforward presentation of domestic class interests. Text book economics would suggest for any developed industrial economy that the interests of capital - both in growth and static distributional terms - would be best served by policies towards developing countries which favour free capital movements, unrestricted immigration of unskilled labour and free trade based on factor endowments. Labour unions (at least those representing unskilled workers) might well have serious reservations about all of these. Yet in practice the employers come out strongly only for freeing capital movements, and British trade unions are, at an official level, no more negative than the employers on the other questions.

The interest groups described are essentially those of producers. A clearcut distinction between 'producers' and 'consumers' is facile when applied to large aggregations like the trade union movement, or even to companies which consume intermediate inputs as well as produce final outputs. But, none the less, industrial interest groups invariably represent their members in their producing rather than consuming role. Formal consumer groups are not so influential. To a large extent they do not need to be; with free access to imports and a flexible independent retail and distribution network, consumers have a considerable countervailing power to producer interests. When, however, they have been threatened with the loss of this option - as with textiles and farm produce - the widely diffused consumer interests have proved difficult to mobilise politically though groups such as the Consumers Association have tried.

Public opinion

Most British politicians have operated on the assumption that being seen to be too generous to foreigners, especially dark-skinned ones, loses votes. The causes (and possibly the effects) of this political caution have been given a detailed examination in two surveys of public opinion carried out in 1969 and 1976.(12) Both of these were mainly concerned with aid rather than wider issues of 'north-south' relations but they did sample public opinion on several associated issues. The first survey showed that there was a good deal of sympathy (over 60%) for the proposition 'that Britain had a duty to help poor countries', and concern about conditions in these countries, especially hunger, was widespread. The survey also showed that 'public knowledge and understanding of aid tended to be rudimentary and that most people regarded aid as charity'.(13)

The second survey retested public attitudes and found evidence of a deterioration in the level of support for the aid programme. 47% of the sample were in favour (with varying enthusiasm) of the UK giving help to poor countries as against 62% seven years earlier. 39% were against (with the balance undecided) as against 29% in 1969. Several reasons were established for this. The first was a strong sense of pessimism and apprehension about Britain's own economic performance, associated with the view that those living in poor countries are now becoming better off while Britain is in decline. The opponents of aid felt that Britain was now too poor or had too many problems of its own. The survey described a general syndrome of 'national introversion' resulting from a sense of economic failure. While only 47% favoured UK aid, 79% felt that 'richer countries' should give aid. Second, there was a great deal of exaggeration of the actual magnitude of resource transfers, on an average by 350%. Hostility was considerably reduced when the true figures were explained. Third, the survey brought out in stark terms the substantial correlation between hostility to assisting developing countries and racial hostility to immigrants. Both attitudes were widespread (especially amongst older people and in less educated and low-income groups) and the survey concluded that a fundamental change of attitude was necessary before either aid or immigrants would become acceptable to a significant minority.

These reactions point to a further conclusion and one of particular relevance to this study. Arguments based on Britain's self-interest appeared to cut little ice with the British public. Those who favour aid do so very largely for humanitarian reasons and they are not influenced by political and economic arguments. Even those opposed to aid are not impressed; they largely disbelieve claims by politicians that there is any real benefit to Britain. Attempts to make the aid programme more attractive politically by comprehensive tying to British exports appear to have been quite ineffective. The survey did not try to make an assessment of public attitudes to trade policy questions but enough was revealed to suggest that a 'mutual interests' approach to development problems might well fall between two stools, devaluing moral concern while failing to convince those who consider themselves 'hardheaded'. Public opinion may not be relevant to the extent that important decisions are made outside the political domain but it must have a significant impact on party attitudes - to which we now turn.

Party political influences

Public opinion goes some way to explain why British governments are reluctant to take up a forward position on development issues and particularly on aid, but there are other political influences. Within Parliament the subject of north-south relations has become largely non-partisan and inconspicuous, debated once a year at most. Interest is confined largely to a dozen or so committed MPs from both sides of the House. However, the establishment of a Commons Select Committee on Overseas Development gave Parliament a strategically important position. Through a series of reports on, for example, 'Trade and Aid', and the Lomé Convention, the Committee pulled together background material to policy issues in a way that no other body has done or could do. Moreover, civil servants and ministers have been cross-questioned at length. It is difficult to believe that the Committee has not left a distinct impression on their thinking. But while the Select Committee has illustrated the influence of well-directed parliamentary enquiry it also illustrated the lack of real parliamentary power. Official witnesses cannot be required to submit papers, to attend, or to answer questions. Publicity is limited. The Overseas Development Committee has now, in any event, been wound up in the recent re-organisation of Select Committees and will function from now on as a sub-committee of the Foreign Affairs Committee. But it did produce a small group of very well-informed politicians, some of whom can subsequently influence policy as Ministers.

The political parties have only a marginal influence on policy, independent of their parliamentary leadership, when in government though, traditionally, the Labour Party has been more independent.(14) Conservative Party policy statements on overseas development issues prior to the election were bland in the extreme and gave no indication of the cuts in the budget to come or the absorption of the ODM into the Foreign Office. The Labour Manifesto had virtually nothing to say on the subject, following a period in which the main preoccupations of the Party on the international front had been the EEC (against), Southern Africa, and human rights in Latin America.

In the Labour Party, much of the old internationalist commitment has ebbed in the wake of the powerful tide of Britain's industrial and political decline, and the perceived need to provide national solutions to what is seen as largely a national problem. Seers and Streeten concluded a review of the record of the 1964-70 period with the judgement that 'Labour is really <u>very</u> parochial'.(15) The period 1974-79 was less conducive to disillusion in the overseas development field but the positive aspects of policy owed virtually nothing to pressure from the Party's grass roots. To the extent that there is any interest on the Left of the Party in relations with developing countries it is heavily influenced by the view that the world economy is dominated by multinational companies and that not much can usefully be accomplished by reformist measures within the present framework of ownership and control. Dame Judith Hart explains in her book <u>Aid and Revolution</u> how she toyed with such ideas but ultimately rejected their negative policy implications.(16) The 'Right' of the Party has for the most part been less interested in developing countries than in Europe and a good many of its 'Europeans' would regard the Lomé Convention as representing an optimal arrangement with developing countries. Clearly, this is not very promising material, and the Party's attempts in office to fashion positive policies have stemmed mainly from a handful of dedicated ministers and a rather weak sense of generalised goodwill from the remainder. In no major component group within the Party is there much of a sense that developing countries can play a positive role in Britain's own economic and political development.

In the Conservative Party there has been a shift in power towards those who believe more strongly in the need to let resources be allocated by market forces rather than by the state. But economic ideology is only one ingredient in policy. There has always been on the political right, and not only in Britain, a strong streak of nationalism tinged with racialism. Even the hard-line 'free market' members of the present Cabinet (who probably constitute - apart from the Prime Minister - a minority) would be appalled at the suggestion that 'free markets' might apply to trade in agriculture or textiles, or that there should be free international movement of labour (into Britain) as well as of capital (out). Populism of this kind helps to capture the mood of 'national introversion', the same preoccupation with Britain's own domestic economic problems which the last survey of public opinion identified as the dominant reason for the growing hostility to the aid budget. The Foreign Secretary recently justified cuts in the aid budget (then running at around half the 0.7% of GNP target level) in these terms: 'the reality is that we really must cut the money that we give to overseas countries according to the resources we have. We cannot pretend that we are a rich country'.(17) Reinforcing the conviction that charity begins at home is the traditional right-wing view that resource transfers to poorer groups are not only bad for the donor but also for the recipient, weakening moral fibre and the spirit of self-help. The Conservative Party has always had a strong anti-aid constituency within it which has been given intellectual coherence by the writings of, <u>inter alia</u>, Professor Bauer and Mr Enoch Powell.(18) These instincts are, in the present government, having to be balanced against the more traditional sentiments of post-war Conservative administrations: concern for the country's image abroad, and for exercising leadership in world affairs. Some measure of the divergent strands of present Conservative thinking could be obtained from the government's reaction to the problem of Vietnamese refugees, on the one hand seeking to organise international relief for victims of Communism but at the same time declaring that (non-white) refugees were unwelcome in Britain, retracting the latter position only after much argument. But to the extent that there are differences in view, they are differences in the degree of generosity of outlook rather than in perception of national instincts. There is little sign on the British 'right', comparable to that amongst French Gaullists (who are scarcely soft-headed). that there are major national interests to be served by adopting a more active policy towards 'the third world'.

The political parties, especially Labour, have, however, lost much of their grass roots activist support to <u>non-governmental organisations</u>; notably the charities and churches. Several of these - Oxfam, War on Want, Christian Aid, and Save the Children Fund - have acquired an enviable reputation for providing useful development assistance without strings (helped, it must be said, by the ODM's 'pound for pound' scheme), and for their ability to draw on a wide and sympathetic public, particularly at times of disaster. An example of the degree to which private initiative can mobilise modest but useful resources is that provided by Action in Distress which, within a short period, has built up an estimated 50,000 subscribers to a (usually £40 per annum) postal parent scheme. Inevitably however, the total resource transfers effected by these groups, an estimated £25 million in 1977, are small in relation to the government's own budget (about 5%), though their usefulness is probably higher for a given resource transfer.

In addition to the charities are the campaigning groups (such as the World Development Movement and the Catholic Institute of International Relations), and they collectively constitute one of the most active lobbies in any Western country except possibly Holland and Sweden. They have been influential where concern can be sharply focussed (as for example on the conditions in Sri Lankan tea estates or in Bolivian tin mines) and related to specific British involvement. There is in addition a large back-up of specialist development studies academics, not only in the Institute of Development Studies at Sussex and other research centres but in most universities (a 1977/78 register lists approximately 800 professional researchers based in the UK). Finally, there is the large number of individuals who have worked abroad in developing countries as volunteers, on technical assistance or on business. Despite this cumulatively substantial collection of committed groups and individuals, their influence on wider issues of 'north-south' relations, especially trade policy, has been negligible. There are several specific reasons for this. The charities have recently found themselves in legal difficulty when they have tried to move from charity work to political campaigning. The NGOs have in general suffered from doubts that have grown in recent years about what 'development' really is, and from ideological differences. But the real problem - if it is a problem - is that the NGOs draw their strength from moral concern and commitment. So far, at least, the notion of 'doing well by doing good' has proved a good deal more difficult to communicate to the sceptical than merely 'doing good'.

Notes

(1) There are a few exceptions. In terms of external policy the most useful source is William Wallace, The Foreign Policy Process in Britain, George Allen & Unwin, and an unpublished thesis by Michael Shipster, The Changing Emphasis of British Aid, East Anglia, M.Litt., 1977.

(2) First Report from the Select Committee on Overseas Development (1977/78) Trade and Aid, Vol. 1, p. viii.

(3) See Department of Trade testimony in Trade and Aid, op. cit., Vol. 2, pp. 38-76.

(4) CBI evidence to Select Committee, ibid., pp. 290-349.

(5) Trade and Aid, op. cit., Vol. 1, p. ix.

(6) CBI evidence, Trade and Aid, op. cit., Vol. 2.

(7) CBI Discussion Document, International Trade Policy and Industrial Change, 14 November 1979.

(8) CBI evidence to Select Committee, Trade and Aid, op. cit., Vol. 2.

(9) See J. Zysman, 'The State As Trader', International Affairs, April 1978.

(10) TUC, Economic Review, 1979, p. 47.

(11) ibid., p. 29.

(12) T. S. Bowles, Survey of Attitudes Towards Overseas Development, HMSO, 1978. I. Rauta, Aid and Overseas Development, HMSO, 1971.

(13) A. Hewitt, 'British Aid: Policy and Practice', ODI Review, No. 2, 1978.

(14) For an extended survey see Peter Atkinson, Aid to Developing Countries as an Issue in British Politics 1945-72, Oxford University, PhD Thesis, 1978.

(15) D. Seers and P. Streeten, 'Overseas Development Policies Under the Labour Government' in W. Beckerman (ed.), The Labour Government's Economic Record, 1964-70, Duckworths, 1972.

(16) Judith Hart, Aid and Revolution, Victor Gollancz, 1973.

(17) Press Report of Lords' discussion on government statement, Wednesday 20 February 1980.

(18) For example, P. T. Bauer, Dissent on Development, Weidenfeld and Nicolson, 1971.

IV. POLICY OBJECTIVES IN BRITAIN'S RELATIONS WITH DEVELOPING COUNTRIES

This chapter will endeavour to describe the main declared objectives of UK government policies in relation to developing countries. It starts with what appear to be the most important, but the ordering is not a rigorous attempt at ranking priorities, not least because few attempts have been made in recent years by any British government to spell out the logic behind its priorities in external affairs. A White Paper, which was promised in 1975, never appeared. The nearest thing which we have to a statement of overseas objectives, and that in very general terms, has been made by the 'Berrill' (CPRS) Report on Overseas Representation:

(i) to ensure the external security of the UK

(ii) to promote the country's economic and social well-being

(iii) to honour certain commitments and obligations which the UK has entered into and cannot withdraw from

(iv) to work for a peaceful and just world.(1)

The report is careful to avoid putting national interests into boxes marked 'political' or 'economic' and ranking priorities in a rigid way: 'the first two should be seen as the prime objectives but they should not and cannot always be given priority over the other two'. In the case of developing countries, interests fall under the head of 'economic . . . well-being'. More specifically,'as a major trading nation Britain needs secure access to raw materials, outlets for exports and stable conditions for investment'.(2) Amongst these overlapping interests trade relations appear to loom particularly large. Although they were kept confidential, the government (the Foreign Office) made regular rankings until recently of countries in terms of their importance to Britain (mainly for the purpose of making decisions on overseas representation and the priorities to be accorded to high level visits), and the importance of countries as markets is the dominant element in the weighting. Of course there are in practice many contradictions. The Labour government sacrificed export objectives in Chile (and also the interests of bankers, and importers of blister copper) because of 'human rights'; though the fact that the humanitarian tail was able to wag the economic dog was probably explained in this case by the small size of the dog and the length of the tail. Commercial objectives are only one part of the rationale for the aid programme. Also, to say that there is a predominant interest in trade begs the question of what happens when finer choices have to be made as between the interests of exporters and import-competing industries. The listing of priorities below is therefore a ranking only in the very loosest sense.

Table 2 UK trade with developing countries: imports and exports by major industrial category (1978)

	Sales value (mn £) 1978	All imports/ consumption (%)	All exports/ sales (%)	Ldc imports/ consumption (%)	Ldc exports/ sales (%)	Ldc less OPEC exports/sales (%)
Coal & petroleum products	7,515	15.3	13.8	1.2	1.1	0.5
Chemicals	11,871	29.4	37.8	0.9	9.3	4.2
Metals	9,263	22.5	19.5	2.0	4.7	2.5
Mechanical engineering	11,194	32.9	49.1	0.7	18.5	8.6
Instruments engineering	1,681	56.4	56.8	4.8	14.8	8.1
Electrical engineering	8,588	36.5	39.6	2.4	14.0	5.5
Ships	1,007	55.3	44.9	0.6	17.9	7.6
Vehicles & aircraft	10,578	44.9	49.8	3.8	15.2	8.2
Metal goods	6,270	24.9	27.9	3.4	7.3	3.5
Textiles	5,697	31.4	29.2	6.9	5.7	3.2
Leather goods	487	45.1	44.9	18.2	7.0	6.2
Clothing	3,129	26.6	18.3	10.9	3.2	1.1
Pottery	3,977	9.2	14.7	2.7	4.3	2.0
Timber/Furniture	3,336	33.9	7.9	4.9	2.2	0.4
Paper products	6,969	20.5	11.2	0.4	3.0	1.6
Miscellaneous manufactures	4,620	17.8	20.2	2.3	4.2	2.0

Export trade

(i) Export of goods

Developing countries, widely defined (to include oil-exporting and non-oil ldcs), accounted for £9.8 million of exports, 27% of the total, in 1978. The promotion of exports to ldcs or any other group of countries cannot, however, be accepted uncritically as a 'national interest' without some reference to the underlying economic assumptions behind such a policy. Additional exports have some cost in terms of scarce factors used. British exports are not constrained by lack of economies of scale. Home demand is in no sense saturated nor lacking the means of stimulation. The priority given by governments to export promotion in general, and to the cultivation of particular markets, derives from two main beliefs. The first is that the growth of the British economy is constrained by the balance of payments. If resources which are currently unemployed, or used in non-trading activities, can be switched into additional exports (or import substitutes), then it will be possible for the UK economy to grow more rapidly. And the more that can be produced for trade and sold at a given exchange rate the less the need for exchange rate depreciation to resolve external disequilibrium, with consequent loss of real incomes through deterioration in the terms of trade, and pressure on domestic price levels. This is not, however, the place to discuss at length the complex arguments about constraints on British growth. Suffice it to say that, at least at present, it is highly debatable whether the balance of payments, rather than fear of aggravating domestic inflation, is the operative constraint. But, even then, increased activity achieved through export growth serves this objective indirectly by (other things being equal) strengthening the exchange rate.

A second assumption made is that exports create or preserve employment. Looking at the situation in a short-term, static, way it can be shown that the £10 billion or so exports to ldcs are 'worth' the equivalent, directly, of over one million jobs. If, however, exports to particular markets are lost then, eventually, through spontaneous or induced processes of adjustment, a new pattern of production and employment emerges, though there are temporary and, possibly, permanent costs and politically important time lags. But not all of the political enthusiasm for export promotion and safeguarding markets has an economic rationale. Politicians frequently describe trade policy in terms of mercantilist objectives: trying to achieve balance of payments success in order to make the country independent and respected overseas.

Table 2 - continued

Source: Ratios relating to developing country trade with the UK are calculated from unpublished Department of Industry Statistics. Import penetration & export sales ratios otherwise calculated as in *Business Monitor* MQ12.

Notes: Import penetration and export sales ratios have to be treated with caution. Domestic sales figures incorporate a good deal of double counting and the ratios are therefore generally underestimated. The figures are also in value not volume terms.
Developing countries are all countries except for European, other OECD, S. African Customs Union and Comecon.

Table 3 British manufacturing industries (3 Digit MLH categories) and trade with developing countries: imports and exports (1978)

Industries with high ldc import penetration (more than 5%)

MLH category		%
444	Mens' shirts/underwear	24.0
(383	Aircraft	23.8)
352	Watches and clocks	23.3
432	Leather goods	21.3
441	Weatherproof outerwear	17.3
413	Woven cotton/manufactured fabrics	16.4
494	Toys & sports goods	13.6
415	Jute goods	13.4
449	Dress industries	13.1
431	Tanning of leather	12.0
322	Copper & brass manufacturing	11.8
416	Rope, twine and net	11.2
417	Hosiery & knitted goods	10.7
445	Ladies dresses & infants	9.9
450	Footwear	7.0
(419	Carpets	7.0)
365	Radios & broadcasting equipment	6.5
418	Lace	6.4
338	Office machinery	6.4
323	Other base metals	6.0
475	Wooden containers & baskets	5.6
392	Cutlery	5.2
364	Electronics components	4.8

Industries with high ldc export sales ratio (more than 10%)

MLH category		% all ldcs	% non-oil
336	Construction equipment	42.2	19.0
383	Aircraft	33.0	17.8
353	Textile machinery	32.3	25.2
361	Electrical machinery	28.6	9.4
380	Cycles & motorcycles	22.5	4.9
338	Office machinery	20.9	12.1
391	Handtools	20.0	10.3
334	Industrial engines	19.8	8.7
353	Surgical appliances	18.4	7.9
335	Watches & clocks	18.1	13.3
362	Wires and cables	18.1	6.8
370	Shipbuilding	18.0	7.7
333	Pumps & valves	17.7	7.2
367	Electronic capital goods	17.1	6.9
341	Ind. plant & steelwork	16.8	6.0
277	Dyestuffs	16.4	11.7
392	Cutlery	16.4	7.7
339	Other machinery	15.0	8.1
272	Pharmaceuticals	14.7	7.1
337	Mech. handling equipment	13.8	7.8
332	Machine tools	13.8	7.8
354	Scientific instruments	13.5	7.0
331	Agricultural equipment	12.9	6.5
312	Steel tubes	12.1	4.0
369	Other electrical goods	12.0	5.0
364	Electrical components	11.5	5.6
381	Motor vehicles	11.2	6.1
418	Lace	11.1	6.2
411	Man-made fibres	11.0	7.3

Although many would regard some or all of these three arguments and the whole notion of 'a national interest in exports' as suspect - at least in the very simple terms in which it is conveyed as part of government export promotion activities - it seems realistic in this context to accept export promotion as a major objective of foreign economic policy. This raises subsidiary questions. What is the trend rather than the static picture in the geographical pattern of trade? Are developing countries, actually or potentially, the most rapidly growing markets for British exporters? What are the national costs and benefits, at the margin, of exports to developing rather than developed countries, to the extent that these are interchangeable? How does the national interest in exports to developing countries tie up with Britain's stance in north-south questions?

The long-term trend is that after a period of decline, from 32% of British exports in 1960 to 20.5% in 1972, the share of developing countries has now increased again to 29% mainly because of the influence of OPEC. In relation to domestic production, changes in export market shares are proportionately greater since there has been a tendency for Britain, like other industrial countries, to become more dependent on export markets as a source of demand; for total manufacturing sales, the ratio of exports to sales increased from 19% in 1970 to 24% in 1976. There is a great deal of variation between industries (see Tables 2 and 3). Developing countries are particularly important for mechanical engineering (18% of sales in 1978, over half of that to OPEC markets), and within that broad category especially textile machinery (30%), construction and earth moving equipment (19%), valves and compressers (18%) and industrial engines (20%); shipbuilding (18%); vehicles (15.5%) of which aerospace (33%) and tractors (22%) stand out; electrical engineering and electrical goods (14%), especially wires and cables (19%) and electronic capital goods (16.5%); instrument engineering (14%); and chemicals (9%), especially pharmaceuticals (15%). Exports to developing countries of armaments are very important (including much of the aerospace category) but raise separate issues of definition and policy and will be dealt with separately below.

Within the general category of developing countries, there is an important distinction between oil and non-oil markets, as Table 4 illustrates. The falling relative importance of the Commonwealth non-oil developing countries is particularly significant. The current lack of importance to Britain of even some of the most significant non-oil ldcs is striking. Less was sold in 1977 to either Brazil or India than to Finland or New Zealand,

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Table 3 - continued

Source: As in Table 2.

Notes: There are a few anomalous statistics:
1. 'Carpets' imports from ldcs are largely non-competing (handwoven) products;
2. 'Aircraft' imports may be so large because of a statistical rendering of servicing and leasing arrangements.

Table 4 Distribution of UK exports by area (%)

Area	1960	1977
Western Europe	32	53
of which EEC	22	36
Rest	12	17
North America	16	12
Other developed countries	15	6
Oil-exporting countries	7	13
Other developing countries	25	13
Centrally-planned economies	3	3
Total	100	100
of which Commonwealth	34	14

Source: Economic Progress Report: Treasury No. 107, February 1979.

only fractionally more to the whole of Latin America (or to all 'Centrally Planned' economies) than to Denmark or Norway, less to China than to the Netherlands Antilles. There are several reasons for the decline in importance of the non-oil countries as a group:

(a) British exporters have inevitably lost their privileged position in 'Empire' markets. They are no longer protected by preferential tariffs and newly independent governments naturally now try to diversify their source of imports. Habits (and interests) die hard, however. As Table 5 illustrates, British exports to former colonies in relation to other industrial countries, even if declining rapidly in importance, are still, substantially in some cases, in excess of what would be expected on the basis of Britain's overall share of OECD manufacturing exports. By contrast, the British share of many non-oil markets formerly outside the sphere of British influence - notably Latin America - remains well below par.

(b) British exports have grown particularly rapidly in Western European markets, EFTA and the EEC, where they have benefited from tariff preferences and from the general movement towards closer economic integration, reinforced by capital movements and the high degree of international trade specialisation which multinationals (mainly US-owned) have helped engender in Europe.

(c) A third explanation, which was given considerable weight in the 1960s and early 1970s (but now looks out-dated post-OPEC and regarding the newly industrialising countries) is that developing countries have less rapidly growing markets. It is alleged that this is because, first, of a tendency to slower growth than in industrialised countries and, second, of a

Table 5 UK share of imports in overseas markets

		1965	1975
Share of UK in all industrial country exports		12.4	9.5
Share of UK in imports from industrial countries:			
Oil exporters		11.5	8.9
Commonwealth ldcs:	Ghana	28.2	22.3
	Hong Kong	20.7	10.4
	India	18.6	9.9
	Jamaica	29.4	19.4
	Kenya	40.5	33.5
	Malaysia	32.3	18.5
	Nigeria	44.3	26.6
	Pakistan	17.7	11.7
	Trinidad	38.0	21.4
	Zambia	49.6	32.7
Non-Commonwealth:	Brazil	4.7	4.7
	Argentina	9.7	6.0
	China	13.5 (1969)	3.9
	Taiwan	2.0	3.0
	Korea	0.3	2.2
	Iran	16.1	10.6
	Kuwait	22.6	13.3
	Libya	10.6	7.8
	Mexico	3.7	3.3
	Saudi Arabia	16.4	8.9
	Venezuela	6.2	4.3

Source: Direction of Trade, IMF

tendency towards import substitution in protected economies (though in practice this latter has affected the composition rather than the volume of imports). The notion that developing country markets, and especially those of the Commonwealth, were likely to be 'less dynamic' than those elsewhere provided a strong supporting rationale for British entry to the EEC and there was some (pre-1970s) academic evidence which pointed in this direction. Despite considerable efforts after 1974 (including the setting up of a chain of 'joint commissions' to stimulate trade in countries with dirigiste trade regimes), official and business orthodoxy is still that developing country markets are somewhat peripheral to Britain's long-term interests. Many businessmen, especially capital goods exporters, have tended to regard developing countries as useful for reducing excess capacity in periods of recession in the West but not as meriting sustained interest. Official spokesmen have also given support to the view that emphasis should be given to Western economies. The head of the BOTB recently observed that 'within the export drive the Board has felt it right to concentrate upon the major industrial markets - Western Europe, North America, Australia and Japan . . . There is a tendency on the part of some of our companies to go for Third World markets as a kind of easy option. It is a hangover from the Commonwealth. We do not thing we ought to pull out of these markets but it is misguided not to go for European markets now that we are in Europe . . . and to try to hive off and compete with the Germans elsewhere'.(3) Underestimating the importance of at least some developing countries is no less foolish than the exaggerated belief in new El Dorados as 'new' markets, such as Brazil, Iran or China, are periodically 'discovered', generating often absurdly unrealistic expectations. The potential of developing country markets is not, however, merely a matter of passive speculation. Their growth of imports is - in all except a handful of Persian Gulf states - heavily constrained by balance of payments considerations. The growth of ldcs as markets is thus in substantial part dependent on measures which OPEC and Western countries take to help them strengthen their foreign exchange earnings capacity.

Quite apart from judgements about 'market potential', there is a separate issue summed up in the belief that, pound for pound, exports to developing countries are less valuable; thus, the head of the BOTB again, 'major competition will make companies much better, more effective, and more efficient than they would be if they simply stuck to easier (ie ldc) markets'. Businessmen are likely to rationalise their indifference in other, indeed contradictory, ways, to the effect that developing country markets are not too easy but too difficult. The complaints range from political uncertainty, bureaucratic inefficiency, corruption, poor communications, the high overheads involved in serving many small segmented markets, to simple dislike and prejudice. If these are the private costs of selling in developing countries there are also social costs; 'we have been reluctant to buy exports either through much easier ECGD loans or by additional aid. We normally give priority to what we get paid in cash'.(4) There is an implicit subsidy of many exports to developing countries through export credits. The Berne Union and OECD agreements limit export credit competition to fixed minimum maturities at 10 years and interest rates of 7½% (as against 8% and 5 years for the 'rich', including oil-rich, countries). But this is not a large differential and it applies almost exclusively to trade in capital goods. Capital goods industries tend to be particularly badly hit by periods of slump and there are in such periods strong commercial and social pressures to soften credit terms even further to whatever countries will buy such goods. If tied aid were also to be regarded as a form of export subsidisation then one could argue that there is a 'cost' to Britain for that share of export orders which would have been won by normal commercial competition. The role of British aid is discussed in more detail below, but at present tied aid in total accounts for less than 5% of British exports of goods to all developing countries.

Despite the important qualifications spelt out above, developing countries overall take a large and growing share of British exports and are of particular value for capital goods industries in times, as at present, of slack demand. We now need to consider how British governments have seen this 'national interest' as being affected by the various proposals for the radical reform of north-south relations to enhance the purchasing power of the 'south'. Not a great deal of enthusiasm has been shown and this attitude will almost certainly be maintained in response to the Brandt proposals. There are two main reasons. One has already been discussed above: scepticism, deriving from experience of a declining share of world exports, about the ability of British exporters to profit from generalised measures taken to enlarge developing countries' purchasing power. To test the validity of this view would require a detailed analysis of the marginal propensities of different combinations of developing countries to spend foreign exchange on British goods and services, for different policy measures. In the absence of such data one has to fall back on indirect evidence. Trends in World Bank (IDA) procurement under competitive tender give some indications. In the mid-1970s UK exporters (of goods, not services) were obtaining roughly the same share of new IDA orders as their share of overall OECD manufactured exports, and as their share of IDA subscriptions. The figures do show a longer-term downward trend (in the mid-1960s UK exporters obtained roughly £2 of business for £1 of

Table 6 UK exporters' share of IDA disbursements(%)

Year	UK share of manufacturing exports of 10 main manufacturing countries A	UK exporters' share of IDA disbursements B	UK share of IDA funds-subscription (net disbursement) C
1967	12.2	25.1	11.6
1968	11.3	18.4	15.8
1969	11.2	18.1	14.1
1970	10.6	10.0	5.3
1971	10.9	11.5	10.3
1972	10.1	13.6	9.3
1973	9.4	11.0	11.6
1974	8.8	10.7	9.8
1975	9.3	7.3	12.1
1976	8.8	8.5	7.9

Source: Appendix 1, Vol. 2 Trade and Aid First Report of the Select Committee on Overseas Development (Col. A & B) and DAC Annual Reports (Col. C).

contributions) but they should also allay the more extreme fears that British exporters would lose out in any untied expansion of developing country foreign exchange earnings. More generally, the British share of world manufactured exports appears to have stabilised after a long period of decline.

The other main reason given for indifference is that Western governments (British and others) no longer see the world in Keynesian, expansionary, terms. The emphasis has shifted from priming the pump of world demand more vigorously to reducing the cost of the primer. In this context there is considerably less interest in expanding developing country purchasing power as a whole than in anti-inflation measures. Even if the government was converted to more expansionary policies, it could no doubt find less problematic and cheaper ways of reflating the British economy than contributing through some form of concessional aid to the economic expansion of poor countries. This is not, however, quite the end of the story. There are ways in which 'external reflation' could contribute directly to a reduction in inflation - notably by financing additional oil and raw material extraction where shortage of these products causes bottlenecks. And there can be few Western Finance Ministers who would welcome the collapse of external markets that might be brought about by the failure of the international commercial banking system to continue to recycle oil producers' savings to poor oil-importing country spenders.

(ii) Armaments exports

Armaments exports are dealt with separately, partly because official trade statistics disguise their importance to the UK economy, and partly because they focus attention on the inadequacies of using the concepts of 'interests' and 'development' in a mechanical way. It is scarcely a British 'interest' to export military technology to governments which might use it in warfare against Britain. Equally it is scarcely 'development' when generals in poor countries import weaponry for display and at the expense of items of mass consumption. British overseas arms sales in 1978 were estimated at £900 million,(5) mainly of items already detailed under manufacturing headings but including also some statistically suppressed items. The total figure may actually be much bigger; one estimate is of a 50% underestimation. Of this sum, roughly three-quarters has been channelled to developing countries, mainly to a handful of oil-rich states. Britain is not amongst the giants in the arms export business (though some sources (6) put its share of world trade, and that of France, at around 10% each of current business, a substantially higher figure than that given in Table 7). But arms sales are still important for the UK economy. They constitute, without doubt, Britain's largest export earner to developing countries, with over 10% of the total value. They have proved particularly important to some of the largest British companies (GEC and Plessey), to some of the most profitable (Racal), and to nationalised industries otherwise faced with painful contraction (British Shipbuilders, British Aerospace, Rolls Royce). The advantage to the British economy has been seen also in wider terms as 'a means of reducing overheads and recouping some R & D expenditure, sustaining defence industries through lean periods

Table 7 Arms transfers by major suppliers 1966-75 ($ million)

Recipients	Total	US	USSR	France	UK
NATO	12,691	8,848	--	935	586
Warsaw Pact	3,017	--	6,298	12	--
Other Europeans	1,918	744	623	156	74
Middle East	16,452	7,475	6,300	544	775
(OPEC)	(8,987)	(3,491)	(2,679)	(728)	(833)
East Asia	21,505	15,682	3,705	45	134
South Asia	2,914	126	1,749	260	96
Africa	3,148	361	1,086	741	219
Latin America	2,768	883	394	502	328
Oceania	942	774	--	27	80
Total	70,355	34,923	20,155	3,222	2,345
Percentage	100.0	49.6	28.6	4.6	3.3

Source: ACDA World Military Expenditures and Arms Transfers, 1966-75 Taken from Lawrence Freedman, Arms Production in the UK, Chatham House.

. . .'(7) Radical critics might well contest this line of argument, questioning the benefits to Britain of using scarce engineering skills in this rather than other ways. Armaments may, however, be approaching their peak in terms of importance as an export industry. The few major markets are becoming saturated (or have virtually disappeared - Iran). And there is a growing threat of competition in lower technology products from indigenous developing country armaments producers (Brazil, Korea and India).

Armament exports have been guided by 'commercial pragmatism', subject to a veto on arms sales to Soviet bloc Communist countries and other pariah nations (Chile, South Africa - though in these two cases the policy has been to sail as close to the wind as domestic political opposition, or UN rules, allow). There is little indication that basic policy will change or that the government, under either party, is impressed by arguments that arms sales are politically destabilising. Rather it would claim that the sale of arms to 'friendly' governments promotes strategic interests without imposing costs on the exchequer or loss of life on the British army. Nor is there any visible concern that there may possibly be a contradiction between the development objectives of the aid budget and the sale of military hardware. India, for example, is currently the beneficiary of the largest British aid allocation and recently the source of the biggest British arms order under negotiation (for re-equipping its air force with Harriers).

(iii) The City and the export of services

Invisible earnings are equivalent to about half of visible export earnings and lead to Britain reaching a current account surplus in most years. Invisible receipts also contribute around 10% of GNP. A large part of invisibles transactions consists of interest, profits and royalties which are dealt with separately below. But important net earners are the financial services of the City (net earnings £1.4 billion in 1977, up from £440 million in 1970) and overseas construction (£620 million earnings in 1977, up from £84 million in 1970) - see Table 8. These two items contribute half of a services balance of £2.8 billion in 1977. Much of the remainder of the surplus originates - or at least did in that year - in tourism. Shipping and aviation are even more important gross earners, though total payments approximate closely to receipts in both cases. Britain's share of world trade in services has declined, as it has in goods, but less rapidly. Its overall share was 26% in 1955, 22% in 1960, 17% in 1970 and 15% in 1977.(8)

The role of developing countries in British service exports is impossible to quantify, since there are no current statistics detailing source of earnings, and even more difficult to analyse briefly, since the various markets for invisible earnings are distinct and are organised differently. Some services are almost entirely geared to developing country markets (eg overseas construction). It is likely in general, however, that the pattern of trade in services has followed that for goods; indeed with some, like shipping and trade-related insurance, the two are directly linked. The Commonwealth has become relatively less important, Europe more. The City was well to the fore in support of British entry to the EEC: 'a faster run-down of the Commonwealth link might theoretically hurt London's merchanting houses and commodity brokers . . . In fact the opposite is likely to happen if London becomes, as it already shows signs of doing the "financial growth pole of Europe".'(9) Developing countries, in total, accounted for just under 30% of world invisible payments in 1975, an increase from around 25% in 1967. It would be surprising if the relative proportions were greatly different for UK earnings.

Services have not been a dominant issue in north-south negotiations and it has not been in the British interest to stir up dissatisfaction by drawing attention to the substantial benefit which Britain derives from trade in services (mainly financial services) with developing countries. But in view of the increasing interest of UNCTAD in shipping and insurance, the British government, and the City, have been obliged to define their interests more clearly. They have expressed particular concern about trade-restricting practices adopted in countries (developed and developing) which have a comparative disadvantage in services. In the case of developing countries, protection of local service industries has often acquired political overtones involving nationalisation of foreign, including British, interests.

Insurance business is particularly important to Britain; from Table 8 it can be seen that it accounts for half of the net overseas earnings of the City, a large part of which is accounted for by Lloyd's members' underwriting activities. Much of Lloyd's

Table 8 British invisible trade (£ million)

		1970 Gross	1970 Net	1977 Gross	1977 Net
A. Overseas earnings by 'City'					
Insurance	Lloyd's underwriting	122		333	
	Brokerage commission	50		185	
	Other underwriting	30		42	
	Overall insurance activity (including investment net earnings)		+297		+909
Commodity Trading		87		229	
Banking	Financial services	48		293	
	Overall net earnings (including interest on sterling liability and foreign currency assets and overseas investment)		+90		+254
Brokerage	Baltic exchange	47		155	
	Total	85		235	
Total City earnings (including others)			+605		+1747
	of which financial services		+439		+1372
B. Other invisible earnings					
Royalties		142	+34	430	+100
Overseas construction		84		618	
Overseas students expenditure		67		309	
Civil aviation			+50		+244
Shipping		402	-76	1035	+21

Source: UK Balance of Payments, HMSO, 1977.

activity is in reinsurance and it is one of the three leading reinsurance organisations of the world. The growth of reinsurance has largely compensated UK concerns for the loss of direct insurance business in developing countries with the spread of controls and takeovers of foreign companies. The newly established national companies have invariably required reinsurance because of the narrow spread of risks in limited domestic markets, and they have often been obliged to turn to London. This dependence may be reduced with the growth of 'third world' reinsurance corporations such as those currently being launched on a multinational basis in

Asia (Hong Kong) and Africa. But their influence will be minor compared with other factors - notably the rate of growth - in consuming countries. British overseas banks have also seen their overseas activities affected by economic nationalism in developing countries. In particular, the British banks engaged in retail banking overseas (notably Barclays and Lloyds) have seen their traditional activities in the Commonwealth and Latin America affected by controls, and partial or total takeovers. However, the significance of overseas banking for the UK economy is probably greater as a result of the volume of its eurodollar lending and this we shall deal with separately.

Of the remaining sources of 'City' earnings, commodity broking is dealt with in more detail under the general heading of commodities. In general, however, specific conflicts of interest are less important than a general concern in the City of London with the growth of world trade and the growth of service-consuming economies.

Amongst other (non-City) invisible earnings there is most immediate concern about developing country ambitions in shipping. British shipping has been dragged down by Britain's poor international trade performance in goods, by high costs and by the growth of competition. Protection of national shipping lines by new entrants to the shipping business has worked to the disadvantage of traditional shippers. The industry has seen competing fleets built up by generously subsidised ships from shipyards in Western countries including Britain itself. One current worry is the developing countries' demand to reorganise the cartel system of conference lines in such a way that they are guaranteed a larger market share. Agreement in principle has been reached, through the EEC, to share out liner trade under a UN code. The declared British interest was to 'minimise the effects of the protectionist cargo sharing elements of the Code without denying the legitimate aspirations of developing countries'.(10) Liner trade is to be shared out in the proportions 40:40:20 between exporters, importers and cross traders. However, because of the likely inability of developing countries to meet their agreed quota it is probable that cross traders like British shippers will retain substantial business. More concern is now being shown over the demand for similar changes in the bulk cargo trade which accounts for a much more substantial part of shipping earnings. Here, concessions will be more actively resisted on the grounds that they will raise the cost of sea transport as well as affecting the UK share of trade.

Consultancy and overseas construction present few north-south policy issues though both are important and rapidly rising exports. One source of invisible earnings of a rather different character is the expenditure of overseas students (or at least those financed from non-UK sources). This item serves to remind us that many British 'interests' in relations with developing countries relate to movements of people of varying levels of skill and education. Only a small part of the importance of this traffic is captured in official statistics. It may be possible to quantify the net expenditure of overseas students but not the net return to the economy, which should include some assessment of the opportunity costs of providing tuition and the indirect 'goodwill' benefits of providing higher education in Britain. It may be possible in principle (though in practice there are no figures available) to quantify the net flow of remittances from migrants to or from developing countries, but it is virtually impossible to quantify the worth of human capital of skills imported or exported. And this is to refer only to the economics, not the social and political impact. Many of Britain's 'interests' in third world development are 'invisible' in more ways than that formally conveyed by balance of payments nomenclature.

This brief survey has brought out the extent and variety of British interests in the 'invisibles' trade. As with goods, developing countries constitute a substantial and (as far as one can see) growing share of export demand and to this extent there is a British interest in the development of those countries which provide this source of demand.

Developing countries as competitors in manufacturing trade

To a degree, it is merely platitudinous to say that Britain, because of the importance of large-scale exports of goods and services, has an 'interest' in third world development. The producers of these goods and services may well have interests, but only the crudest mercantilist would see 'national interests' in terms of exports rather than more broadly in terms of the gains from specialisation. Trade specialisation with developing countries can take a variety of forms not all of which produce the same balance of interests. Traditionally the gains from trade with developing countries have been seen in terms of complementary needs (their raw materials for our manufactures and services). There are many who still see rich country trade interests as confined to this mode of specialisation. 'Development' has, however, entailed in most developing countries the growth of competitive rather than complementary economic structures, primarily, but not exclusively, through industrialisation. The question raised then is whether Britain has an interest in encouraging developing country industrialisation. More specifically, does Britain have an interest in offering liberal access to competing manufactured imports? (Developing country industrialisation might take other inward-looking forms but that shifts the competition from British import-competing to export industries.)

Competing imports of manufactures have been a growing preoccupation of recent British governments, especially imports from low labour cost sources. There has been a shift away from policies of liberal access at a time when developing countries have been giving higher priority to access questions. Britain's shift of position has been particularly striking in contrast to its tradition of relative openness and liberality in trade matters. Although the protectionist bark has usually been sharper than the bite, and although the influence of the French within the EEC has probably been stronger, the British government can fairly be debited with playing a leading role in steering the EEC to more restrictive policies with regard to textiles and clothing, shoes, steel and electrical goods (all non-tariff measures), to manufacturing tariff ceilings under the Generalised System of Preferences, and on the 'selective safeguards' issue in the GATT Tokyo Round.

All of this occurred under a Labour government. But the evidence suggests that a Conservative government, despite an ostensible commitment to 'free markets', will be equally protective or more so. Its manifesto, echoing Labour government policy almost word for word, 'fully supported the renegotiated Multi-Fibre Arrangement (MFA) for textiles and will insist that it is monitored effectively and speedily. We also believe in a revised "safeguard" clause recently renegotiated under the GATT to give us a better defence against sudden and massive surges of imports.'

A recent report by government economists on NIC imports (including also Spain, Greece, Portugal and some East European Communist countries) has provided a good deal of factual background to a phenomenon which had created concern.(11) Its main conclusions were:

(a) Britain has experienced rising import penetration from NIC manufactures at a rate comparable to that for manufactured imports as a whole. The share of 11 major NICs in British manufactured imports between 1963 and 1977 remained at around 7% (while their share of OECD manufactured imports as a whole in this period rose from 3% to 8%).

(b) An analysis of the influence of NIC imports on UK employment at sectoral level, based on an exercise carried out by the present writer (and subject to many methodological qualifications), confirmed that NIC imports, even excluding the positive effects of exports in the reverse direction, were a very small contributory direct cause of redundancy in manufacturing branches studied. This was in contrast to other influences, such as labour productivity increasing more rapidly than final demand, and trade with developed countries. But future projections to 1985 based on past NIC import growth indicate that 8% (gross) of the present labour force could be affected (ignoring all positive effects on employment from trade with NICs, and assuming that the influence of NIC imports is additional to other influences and not a substitute, both major qualifications).

(c) Predictably, some sectors have been more affected than others. In employment terms NIC imports were the most important influence as regards mens' shirts and hosiery, were substantial in relation to other factors for some other clothing and textile items (dresses, tailored outwear, woven fabrics), and were major as regards toys, leather goods and cutlery. Table 3 sets out more comprehensively, for 1978, import penetration ratios for all developing countries (not only NICs). Current figures do not, of course, show up those areas where NIC competition is feared but is currently very small (cars, machine tools, steel).

None of these facts are very startling, even if interpreted, as they often are, in the worst possible light, and suggest no particular reason for regarding NICs, in isolation, as a potentially serious threat to the British economy. The reasons why they have become so regarded are several, and some are common to other industrial countries:

(a) There has been a widespread feeling in government, supported by pressures from outside, that current levels of unemployment (1.5 million, or over 5%) invalidate the assumptions on which gains from specialisation in international trade are based. One reason why policy-makers may have been particularly ill-disposed to developing countries is the notion, derived from a simple two-factor model of international trade, that these countries aggravate unemployment by biasing the structure of production towards capital-intensive industries. But econometric work by the present author and I. Rebelo, and also by Department of Industry economists, on the UK's pattern of specialisation shows that Britain's comparative advantage in manufacturing trade with ldcs does not lie in relatively capital-intensive industries (quite the reverse) but in industries utilising human capital, innovativeness or skill (12). Thus there may be problems for unskilled labour and particularly women workers but not necessarily for the labour force as a whole.

(b) A more specifically British anxiety has been that the national tendency to balance of payments difficulties prevents the country from reflating out of recession (assuming its government wished to do so, which it has not since 1977, because of fears of aggravating inflation). In these circumstances, rising imports complicate economic management. Empirical work suggests that 'the income elasticity of demand for British exports is only half that of British imports . . . Britain can only grow half as fast as the rest of the world if it wants to maintain its exchange rate'.(13) The macroeconomic arguments are too technical and complex for this present paper. Suffice it to say that the policy prescription which has flowed from the concern about the balance of payments 'constraint' has been one of general non-discriminatory import controls. The effect on policy of this line of thinking has so far been rather oblique, persuading much of the 'Labour movement' that a reactive tinkering with selective import controls on NIC (and Japanese) imports forms part of a grand economic design (despite messages from Cambridge that these selective measures are irrelevant or worse).

(c) As the overall balance of payments perspective has been changed by the impact of oil, attention has been drawn to the more specific question of manufacturing industry, and to the threat of 'deindustrialisation'. The facts, here, do give cause for concern. Britain's manufacturing trade surplus shrank from £6 billion in 1970 to £1 billion in 1979. In these circumstances there is considerable pessimism that resources released from low productivity occupations (as a result of NIC competition or for other reasons) will be redeployed more productively elsewhere in traded goods or services. The OECD Annual Report observes 'It seems that the shift of resources into potentially expanding sectors of manufacturing industry is not taking place at a rate sufficient to maintain a viable external position in conditions of reasonable buoyancy of domestic demand. And it seems probable that contraction of certain sectors is not fully or even largely attributable to a shift in comparative advantage but rather to insufficient investment in the past'.(14)

There is also evidence that the value-added content of British exports is declining and that while 'the British comparative innovative advantage is in aircraft and defence related sectors, . . . British technical effort has declined noticeably compared with other countries over the past ten to fifteen years'.(15) In these circumstances there is a tendency to regard developing country ambitions to industrialise with considerable gloom and to believe that Britain, as the 'tail-end Charlie' of the industrial world, is most vulnerable to attack and least able to derive positive advantage from restructuring. The current contribution of NICs to 'deindustrialisation' is relatively modest, however.

(d) One of the odder features of the argument about NICs has been the apparent lack of priority being given to the effect of selective protection on prices. This is at odds with the over-riding priority given both by this government and the previous one to anti-inflation objectives. Nor has the politically influential popular demand for 'cheap' (imported) food had any counterpart in the field of textile clothing and footwear. Yet, a recent Consumer Association survey of the textile trade showed that price increases averaging around 40% of the fob export price from developing countries could have resulted from tighter restrictions under the Multi-Fibre Arrangement. (This is borne out by the magnitude of the Hong Kong export quota premium.) One explanation for the failure of the consumer interest to be forcefully articulated politically (at least in relation to that of the producers) is the somewhat ambivalent attitude of some of the large retail stores and importers, who are normally a forceful pressure group for liberal imports. One of the most important (Marks and Spencer) has been an active supporter of stricter import controls, having found that its purchasing arrangements with British firms were causing it to lose ground to other retailers which 'shopped around'.

(e) One factor which may have been a stimulus to protectionist thinking has been the way in which manufacturing trade generally involves specialisation between industries (admittedly a somewhat unsatisfactory concept) rather than within them. GATT has dismissed the distinction between intra and inter-industry trade as economically unimportant.(16) But politically it is important. When the same group of producers act as importers from and exporters to the same market those directly concerned have less interest in a restrictive approach to trade. This appears to have been a decisive factor in maintaining free access to the highly penetrated market for watches and clocks, and for other industries such as electronics in which it is difficult to separate out the interests of producers in exporting or importing components and parts of a product range. The opposite is true of the textiles and clothing trade with developing countries. Most sub-branches of these industries run a negative trade balance with developing countries. This provides the basis for a very effective lobby. Of course there are some gainers as well as losers even in the textiles and clothing field. Machinery makers export roughly £100 million of goods to developing countries (out of £200 million in total) and negligible amounts are imported. Some clothing firms benefit from cheap imported fabrics, and some from being able to 'sew up' in offshore processing operations. Many industrial firms have successfully adjusted 'upmarket' or into industrial textiles or out of the industry altogether. But the centrifugal effects of these interests have proved less powerful than the centripetal pull of the common interest of the majority of firms and in particular those of the man-made fibre producers (ICI and Courtaulds). The tendency for interests to be conceived in sectoral rather than national terms has been reinforced unwittingly by the (Labour) government's 'industrial strategy' and in particular by its Sector Working Parties. These have their origins in the sensible idea that workers and management, under government patronage, should cooperate in devising policies to improve their industry's performance and to pull up the weakest firms in each industry to the performance levels of the best. In practice it has also helped to strengthen producer lobbies and to legitimise demands for import controls which several SWPs have made.

(f) One distinctive feature of British experience (though the facts are not easy to document) is the low degree of direct involvement by British manufacturing firms in various forms of specialisation with developing countries (subcontracting, offshore processing, or overseas investment in all stages of ldc export industries) which might assist, for capital, the process of adjustment in troubled industries. This is particularly striking for clothing and footwear, though some involvement in Mediterranean garment-making operations seems to have tempered slightly the hostility to offshore processing. Even in electronics industries, where there has been a substantial 'internationalisation' of production, British industry has been defensive (in the context of the GSP, for example, towards imports of calculators and components).

(g) Sectional self-interest is usually more convincing if clothed in the vocabulary of morality and of national interest. The CBI has set out the apprehensions of its members (or at least some of them) in terms of lack of reciprocity: 'The EEC should be more aware of the costs involved in pursuing a liberal common commercial policy and should seek greater benefits for its own industries' . . . 'we are not free traders so much as fair traders'.(17) The trade unions have concentrated on the 'unfairness' of low wages (private and social) in some developing countries which are 'the underlying cause of "disruption" in trading patterns. Clearly one of the main advantages of less-developed countries in world trade is low labour costs . . . If minimum labour standards are not maintained social progress will be penalised by a decline in trading competitiveness'.(18) The other element of 'unfairness' is the allegedly unequal international distribution of the 'burden' of 'low-cost' imports (the CBI again): 'it is however extremely hard to find direct benefits to UK and EEC industries from the EEC's extremely liberal approach to its external relations. There is no doubt that the EEC has to bear greater burdens than for example its US counterpart in terms of imports from ldcs' . . . and 'although currently one of the weaker members of the Community, the UK continues to bear an unfair burden as regards imports from ldcs' (then illustrated with reference to jute and knitted goods). As we have seen above, overall it is simply not true that Britain is disproportionately 'burdened'. But once the major premise of the argument is conceded (that imports are a 'burden'), it is difficult to refute in particular cases since it is invariably possible to show on one of the many alternative measures of ldc import penetration, and for a judiciously selected group of countries and products, that trade is 'unfair'.

A good deal of detailed attention has been given to the question of trade protection and adjustment since this is a subject which both developing countries and Britain have regarded as central to their trading interests, albeit in different ways. In those industrial sectors where protectionist pressures have been great, specific industrial interests have invariably been given priority over wider national interests, let alone the interests of developing countries, and the prediction must be that if there are any changes in the near future they will be for the worse. Optimists would argue that in current economic circumstances it is surprising that Britain is not more illiberal than it is. At the very least there has been little of the almost hysterical racial-nationalism which is being brought to bear on the problem in France where 'la Grande Menace Industrielle' - the NICs - has become a major political issue.(19)

To conclude, most economists - even those disposed towards general import controls for balance of payments reasons and towards selective import controls for genuine 'infant industries' - will agree that a restrictive approach to competing imports is, on balance, damaging to Britain's national interests, however welcome it may be to sectional interests. This is a case where 'real' and 'perceived' British national interests appear to have substantially diverged.

Private resource transfers

The question of whether Britain has a national interest in exporting private capital to developing countries (or anywhere else) was likely, at least until the advent of the present government, to produce from decision-makers more equivocal answers than on trade. Exchange controls have been operative for much of the post-war period under governments of both parties. Although freedom of movement for factors of production has the same underlying intellectual justification as free trade in goods, amongst market economies, the political and economic problems have proved less tractable. Moreover, developing countries are less likely to recognise a mutuality of interest in this area. Most of them, including some very improbable free traders, can usually be called upon to condemn Western protectionism in trade but few would regard 'protectionist' Western controls on capital outflows as being any concern of theirs. The failure or success of Western countries in reaching the 0.3% of GNP Pearson target for private net capital flows rates scarcely a mention at 'north-south' gatherings. In these circumstances it is rather easier to describe private British interests than to locate these firmly in an array of national or international interests.

One distinction which should be made for the sake of clarification is between different types of private assets and international transactions. First of all there is the question of whether it is in Britain's interest to promote, and protect, direct investment in developing countries. This essentially concerns UK-based multinationals but from an analytical point of view it could equally well refer to British nationals buying houses overseas. Second, there is the question of whether it is in Britain's interest to act as a financial intermediary or banker. Traditionally this happened through the mechanism of sterling balances whereby developing country, and other, monetary authorities used short-term sterling official assets as a store of value and medium of exchange. This role has virtually disappeared. What has grown to prodigious proportions, however, is the growth of London as a financial centre: a home for banks borrowing (mainly short-term and mainly from Arabs) and lending (mainly medium-term and substantially to non-oil developing countries) in currencies other than (but increasingly including) sterling. The policy issues in this field are substantially different from those surrounding direct investment and need to be dealt with separately.

(i) Direct investment

The extent to which Britain has an interest in direct overseas investment was explored most comprehensively in the Reddaway Report a decade ago. The broad conclusion was that the 'true' return from overseas investment by manufacturing companies was greater than the opportunity cost (ie the return from investing at home). To the extent to which it was possible to make inter-country comparisons, investments in developing countries appeared to yield greater returns to the UK. Policy-makers were not, however, inclined to treat, as Reddaway did, the balance of payments considerations as of no intrinsic importance except as an indirect source of income gain or loss. Two factors have subsequently strengthened the hand of those who wish to treat overseas investment as a British 'interest'. The first is evidence, assembled by Dunning, of a markedly widening gap between returns on domestic and foreign investment.(20) He did not carry through the full Reddaway treatment of national costs and benefits (to take into account the effect on exports notably) but it is likely that the conclusion would be the same. The second is the changing nature of the balance of payments problem, and in particular the effect of exchange controls in helping to keep up an uncomfortably high exchange rate. In the present political and economic context it seems sensible therefore to treat private investment in developing countries and elsewhere as a British 'interest'.

Whatever past government policy may have been, it has not stopped a growing outflow of direct investment (see Table 9) for the simple reason that the overwhelming majority of new foreign investment has been in the form of reinvested profits overseas, over which UK authorities have had little influence. But this has been balanced in large part by capital inflows, especially from oil companies. As far as the geographical distribution is concerned, in 1962, developing countries accounted for over 40%

Table 9 Trends in private capital flows (£ million)

Year	Direct investment by UK companies (excluding oil & insurance)		Direct investment by oil companies	
	Outflow	Balance	Outflow	Balance
1967	-281	-111	-116	+71
1970	-546	-192	-151	+108
1973	-1621	-895	-415	-33
1976	-2108	-1397	-217	+602
1977	-1899	-748	-440	+607

Source: Trade and Industry, 23 March 1979 and MA4, HMSO.

Note: (-) indicates outflow

of British overseas private foreign assets (£1.3 billion). The share had fallen to 25% by 1974, valued at £2.4 billion, representing scarcely any increase in real terms (see Table 10). These figures are not complete (they exclude oil and insurance) or up-to-date and there are familiar valuation problems. But a clear feature of this period is relatively declining investment in developing countries, and net disinvestment in some Commonwealth countries, with a redirection of overseas investment towards Europe. More recent figures for 1974-77 suggest, however, a movement back towards ldcs, especially to OPEC countries, and a slower growth of net investment in the EEC and 'other developed countries' including South Africa. There is a similar trend globally; ldcs accounted for 36% of net foreign investment in 1970/5 but 30% in the 1957/70 period.

The tendency until recently for developing countries to have a declining share in British foreign investment can be explained in several ways. The first has been political. In some Commonwealth countries British firms have been replaced by governments or local shareholders (India, Sri Lanka, Zambia, Tanzania, Ghana, Guyana). But British firms have expanded rapidly in countries where foreign capitalists are welcomed (Brazil, the Gulf states, Hong Kong, Singapore and to a lesser extent Malaysia, Nigeria and Kenya). In the last few years the pull of these countries has reversed the long-term decline in the share of ldcs. A second is that foreign investment has tended to follow (or lead in some cases) the redirection of British trade interests towards industrialised countries in general and Europe in particular. Economic theory, at least in its static forms, suggests that capital movements are a substitute for trade but British firms have shown much more interest in investing for locational advantages in markets already freed than in 'jumping the tariff' into protected developing country markets. In some cases this has led to their losing out in expanding markets; the CPRS report on the car industry was critical of British Leyland's lack of enterprise in this respect.(21)

Table 10 UK foreign investment: geographical trends

	(1) 1962 (Stock) £m	(2) 1974 (Stock) £m	(3) $\frac{2-1}{1}$ (%) Growth	(4) Net investment 1974-77 £m	(5) $\frac{4}{4+2}$ (%) Growth
World	3,404	10,118	197	5,083	34
Commonwealth	2,049	4,501	120	1,628	26
Developing	1,274	2,413	89	1,233	33
Oil-exporting	162	319	97	336	52
EEC	273	2,197	705	1,014	31
N. America	785	2,214	182	1,412	39
Other developed	923	2,968	311	1,009	25
S. Africa	290	977	237	460	32
S. America/Caribbean	277	464	68	246	35
Brazil	37	193	422		
Mexico	28	51	82		
Argentina	49	71	45		
Africa	414	737	78	494	40
Ghana	53	55	4		
Kenya	47	88	87		
Nigeria	93	199	114		
Rhodesia	62 (1965)	114	84		
Middle East & Iran	14	64	357	43	40
Gulf	5	44	780		
Other Asia	529	868	64	321	27
India	260	275	6		
Malaysia	127	271	113		
Hong Kong	20	142	610		
Singapore	6	54	800		
Sri Lanka	46	30	-35		

Source: M4 and MA4 Overseas Transactions, HMSO
Note: Investment figures exclude oil companies and insurance. Net investment includes unremitted profit.

But the relative stagnation of Western markets and the more rapid growth of the NICs is currently causing a reversal of the long-run trend in both trade and investment.

A third factor, at least in the 1970s, has been the influence of British exchange control restrictions on overseas investment and corporation tax regulations which have had a similar effect. The exchange control rules, which were significantly toughened in 1968, restricted the use of sterling for overseas investment, unless this was exceptionally profitable. Until 1974, these restrictions did not affect the sterling area and since then Britain has been committed in principle to liberalising capital flows to Europe. Despite the earlier, sterling area, dispensation it is likely that the restrictions had a particularly discouraging effect on investment in developing countries, which themselves operate exchange control (preventing the British rules being satisfied) and which have narrow financial markets from which British companies could raise capital locally. Removal of the remaining exchange controls in recent months should give further momentum to investment in developing countries.

The British interest does not lie, however, in having the overseas assets but in the stream of incomes flowing from them. British net invisible earnings from existing overseas investments in developing countries (excluding oil and insurance) averaged £675 million in the 1974-1977 period, a substantially larger amount than the annual level of net investment there (£400 million) - see Table 11. All the evidence, from Reddaway on, points to ldcs yielding higher net rates of return (though there is a great deal of inter-country variation, and, it would be argued, an element of risk premium in some cases). In 1974 developing countries accounted for 35% of UK overseas investment earnings but only 25% of the assets. Over the 1974-1977 period developing countries accounted for 25% of new investment but 33% of earnings. Investments in the Middle East and Asia appear particularly profitable in terms of net profits in relation to net assets. In addition there are royalty payments from technical or management collaboration arrangements in which foreigners hold the equity (Table 12 illustrates the trade balance in royalties for the UK which has a surplus of about £60 million in such trade with developing countries).

The other major feature of overseas investment in developing countries is the shift from resource-based industry to distribution and manufacturing (see Table 13). Developing countries account for a higher share of capital stock in agriculture, but smaller in mining, than for the world as a whole. But there is little new investment in agriculture and mining taking place. Over half of the stock of agricultural investment is in Malaysia (rubber and palm oil) and India (tea) and in neither case is new foreign investment in agriculture being encouraged by the host government, especially India. Mining investment has been similarly inhibited in those countries where British mining companies have had extensive interests in the past: Rhodesia, Zambia and Malaysia. Overall, the developing country share of British overseas investment in resource-based activities fell from 29% in 1962 to 15% in 1976.

Table 11 Returns on overseas investment (£ million)

	(1) 1974 (Stock)	(2) 1974–77 (Net investment)	(3) 1974 (Net earnings)	(4) 1974–77 (Average net earnings)	(5) $\frac{3}{1}$	(6) $\frac{4}{1+2}$
World	10,118	4,993	1,490	2,084	14.7	13.8
Commonwealth	4,501	1,628	616	859	13.7	14.0
Developing	2,413	1,233	465	675	19.3	18.5
Oil-exporting	319	326	67	166	21.0	25.7
EEC	2,197	1,014	268	351	12.2	10.9
N. America	2,214	1,412	308	607	13.9	16.7
Other developed	2,968	1,009	408	602	13.7	15.1
S. Africa	997	459	214	234	21.5	16.1
S. America/Caribbean	464	246	125	153	27.0	21.5
Africa	737	494	127	184	17.2	14.9
Middle East & Iran	64	50	22	58	34.3	50.9
Other Asia	868	319	152	209	17.5	17.7

Source: Derived from MA4 Overseas Transactions, HMSO, 1977 and M4; 1974 supplement.

Note: Overseas investment figures exclude oil and insurance.
Net earnings are after payment of overseas tax, and depreciation. They include profit of overseas branches plus UK companies receipt of interest and profits from overseas subsidiaries and associates

Table 12 Balance of transactions on overseas royalties (£ million)

		All	Technology
with	US	-119.1	-118.4
	W. Europe	+26.1	+15.5
	Ldcs	+63.2	+62.6
	World	+36.7	+17.0

Source: Overseas Transactions, M4, HMSO, 1977, op. cit.

The share in manufacturing in developing countries, especially in 'scale-sensitive' industries such as chemicals, is less than for the world as a whole but is rising. There has been a rapid growth of investment in trade and distribution which also appears more profitable than other sectors, and British interests here are extensive in Nigeria, Singapore, Kenya and Hong Kong. These trends also raise again the question dealt with earlier under the trade heading as to whether there is a 'national interest' in promoting 'competitive' industrialisation in developing countries as well as 'complementary' raw material extraction. The present author has made light of this distinction but it is as well to be aware that it exists; hard-headed 'neocolonialists' might well be persuaded that Britain had major interests, but much more in the case of raw materials.

The features of British overseas investment which can be discerned from the aggregate data can also be detected in the accounts of leading British companies which previously had a substantial ownership stake in developing countries (Table 14). BP, Lonhro, RTZ, Unilever, Dunlop, BAT have all had a policy of diversifying elsewhere (and into other products). BP used to have substantial assets in the Middle East and Africa which have now (especially with the nationalisation of its Nigerian 'equity crude' production) shrunk to insignificance beside its interests in Alaska and the North Sea. Unilever (the former United Africa Company) now has less than 20% of its assets in developing countries and less than 10% in Africa. This financial year, Lonhro's profits from British investments are likely, for the first time, to exceed those from Africa. But most of these companies seem to derive greater returns from their developing country assets and some, Unilever for example, are sounding more positive about future investment there. Reference to particular companies is necessary for other reasons. Foreign investment in developing countries is not a statistical abstraction but usually involves a very visible presence by a particular company. To the extent that a 'British' multinational is involved there are political ramifications from the way that particular company behaves, or is seen to behave. These go considerably beyond an economist's calculation of net benefits, however sophisticated.

Table 13 Composition of overseas investment (£ million)

	Developing countries					World				
	Stock (1974)		Net investment 1974-77		Net (1974) return	Stock (1974)		Net investment 1974-77		Net (1974) return
	£m	%	£m	%	%	£m	%	£m	%	%
Manufactures	1,163	48.2	581	51.5	13.6	6,017	59.4	2,846	56.9	12.5
of which Food	397	(16.4)	157	(13.9)	15.5	1,552	15.3	711	14.2	13.8
Chemicals	193	(8.0)	147	(13.0)	15.1	1,153	11.4	765	15.3	16.0
Textiles	93	(3.8)	35	(3.1)	12.4	434	4.3	123	2.4	12.0
Agriculture	339	14.0	57	5.0	15.5	462	4.6	45	0.9	13.2
Mining	101	4.2	21	1.9	20.9	662	6.5	231	4.6	20.8
Property	63	2.6	34	3.0	1.0	312	3.1	41	0.8	0.0
Distribution	418	17.3	345	30.6	20.7	1,687	16.7	987	19.8	14.1
All (including others)	2,413	(100.0)	1,128	(100.0)	--	10,118	100.0	4,993	100.0	--

Source: Overseas Transactions, M4, HMSO, 1977, op. cit.

Table 14 Major British companies and developing country interests

Company	Ranking in *Times* list of leading companies	Sales (turnover of companies' operations)	Assets (net)	Profits (trading profit unless specified)
BP (1977/78)	1	Total £14.7bn (including duties) Middle East and Africa £0.85bn (6.8%) Far East & Australia £0.75bn (5.3%)	£1.1bn £82mn (7.4%) £62mn (5.6%)	£1.33bn £116mn (8.7%) £81mn (6.1%)
Shell (1977/78) World results	2	Total £23.3bn Far East & Australia £3.88bn (16.6%) Other E. hemisphere & Africa £3.99bn (17.1%) Other W. hemisphere (and US) £3.98bn (17.1%)	(gross) £18.8bn £2.2bn (11.7%) £1.6bn (8.5%) £2.9bn (15.4%)	('net income') £1.34bn £420mn (31.3%) £140mn (10.4%) £170mn (12.7%)
BAT (1975/76) Latest available	3	Total £4.26bn Latin America £1.33bn (31.2%) Asia and Africa	(net) £1.74bn £0.380m (21.8%)	£0.320m £0.110m (34.0%)
ICI (1977/78)	4	Total £2.76bn Indian sub-continent £116mn (4.2%) 'Others' (not Europe/Americas & Australisia) £234mn (8.5%)	n.a.	£370mn £12mn (3.2%) £22mn (5.9%)
Unilever (1977/78)	5	Total £3.52bn Latin America/Asia and Australisia £253mn (7.2%) Africa £307mn (8.7%)	n.a.	£273mn £42mn (15.4%) £41mn (15.2%)
GEC (1978/79)	10	Total £2.50bn Asia and Africa £120mn (4.8%)	n.a.	£318mn £12mn (3.8%)

Table 14 - continued

				(net profits for shareholders)
RTZ (1977/78)	11	Total £2.11bn S. Africa/Namibia £159mn (7.5%) P.N.G. £177mn (8.4%)	£2.04bn £261mn (12.8%) £254mn (12.4%)	£98mn £9mn (10.0%) £8mn (8.2%)
				('surplus after depreciation)
GKN (1978/79)	15	Total £1.75 bn Asia and Africa £106mn (6.0%)	n.a.	£102.5mn £9.5mn (9.3%)
Rothmans (1977/78)	18	Total £1.50bn 'Outside Europe' £24.0%)	n.a.	(57.0%)
Dunlop (1977/78)	19	Total £1.36bn Asia/Africa/Australia/Latin America £301mn (22.1%)	n.a.	£75mn £22mn (29.3%)
Inchcape (1975/76)	24	Africa/Far East/Mid. East/ S.E. Asia (52.0%)	(67.0%)	(84.0%)
Lonhro (1977/78)	27	Total £1.49bn S. Africa & Swaziland £165mn (11.0%) Other Africa £345mn (23.1%)	n.a.	£94mn £22mn (23.4%) £42mn (44.7%)

Notes: 1. The definition of 'profits', 'sales', etc. is not always entirely clear from the accounts. Attributable turnover/profits etc. could also be distorted by transfer pricing.

2. Several leading companies did not offer figures in a way which could be used in this way: a) Courtaulds (rank 16) and Leyland (rank 7) did not give a regional breakdown;
b) Esso (rank 9), Ford (rank 8) are US owned;
c) Some had negligible interests in ldcs (Imperial Group (rank 6), Bowater (rank 12), Cavenham (rank 13);
d) Beresfords (rank 23) and Tate & Lyle (rank 25) earn most of their profits from commodity trading, mainly sugar, alsmost all from ldcs.

Source: Various company accounts.

British interests in overseas investment have affected policy towards items on the 'north-south' agenda primarily by dictating a negative approach to the regulation of multinationals. A particularly negative view has been taken of attempts (as in the Charter of Economic Rights and Duties - 'their' Rights and 'our' Duties as it came to be called) to shift the judicial basis of international law governing overseas investment in a way that seems to undermine the rights of investors and the effectiveness of international arbitration procedures when expropriation occurs. Conservative and Labour governments do not appear to have held different views as to the 'national interest' in exempting multinational capital from close regulation. Very little progress has been made multilaterally on this issue, and for the most part British investment interests are considered to be served by cultivating bilateral relationships with developing countries which welcome investors. This may, however, be altogether too short-sighted an approach. If there is a long-term British interest in overseas investment there is an interest in improving the political atmosphere in which this investment takes place. In many developing countries this has been soured by genuinely unhappy experiences. British and EEC negotiators were taken aback, for example, by the vehemence with which the Lomé negotiators rejected investment guarantees in the new Lomé Convention. This suggests that there should be a greater interest in proposals which try to strike a balance between ensuring security for investors and the rights of host countries.

(ii) Bank lending and the 'Debt Problem'

The other aspect of national interests in private capital flows relates to the overseas lending activities of British banks.

British banks have been heavily engaged in the business of recycling OPEC funds. It is somewhat misleading, however, to talk in terms of British patriality where banking is concerned. Many 'British' bank operations in the City are of an 'offshore' character conducted in foreign currencies and by the subsidiaries of overseas, mainly US, banks, which happen to be in London. The recent US seizure of Iranian assets was conducted on the legal assumption that extraterritorial US banking interests were a US rather than a UK concern, but the implications of this have yet to be fully assimilated. Table 15 gives some idea of the magnitude of UK banks' external transactions in 1977. Developing countries accounted for £32 billion out of £83 billion of 'British' overseas bank lending (as defined by the UK authorities). Net lending to non-oil developing countries stood at £5 billion and net borrowing from OPEC at £10 billion. On a much wider definition of UK banking interests, but one permitting more detailed and recent analysis (Table 16), developing countries (oil and non-oil but excluding offshore banking centres) accounted for about 18% of bank claims and 30% of liabilities, the balance being accounted for by recycling of OPEC deposits to non-developing country borrowers. From the Table it can be seen that approximately two-thirds of (gross) ldc claims are accounted for by five countries (if we exclude the large sums relent through the Bahamas and the other offshore centres). In general, British banks appear to be somewhat less involved in 'third world' eurodollar lending than US and other banks. The mainly UK-based banks (as defined above) hold approximately 25% of all claims of banks in the Bank for International Settlements area but slightly less of direct claims on major ldcs (under 20% for Brazil, Venezuela and Korea). British banks have been generally

Table 15 Activities of UK banks: external liabilities and claims (£ million)

	1971	1977
UK liabilities (ie deposits)		
OPEC	934	16,614
Other ldcs (and Comecon)	3,262	22,932
World	17,605	89,590
UK claims (ie loans)		
OPEC	305	4,783
Other ldcs (and Comecon)	4,056	28,366
World	16,680	82,999
Net liabilities (minus sign implies claims more than liabilities)		
OPEC	+629	+11,831
Other ldcs (and Comecon)	-794	-5,434
World	+925	+6,591

Source: UK Balance of Payments 1967-77, HMSO.

Note: The definition of UK banks is far narrower than in Table 16.

Table 16 External liabilities and claims of 'UK banks and certain international banks' (end September 1979) (£ billion)

	Liabilities	Claims
Total	226.3	252.5
Offshore banking centres	3.2	47.9
of which Bahamas	9.1	19.5
Eastern Europe	3.2	12.4
OPEC	42.2	17.3
of which Venezuela	2.2	2.8
Nigeria	0.2	0.9
Non-oil ldcs	26.0	26.7
of which Argentina	2.6	1.9
Mexico	1.5	6.5
Brazil	3.1	7.0
Korea	0.3	1.5
Philippines	0.8	1.0
Malaysia	2.0	0.4
India	2.0	0.1
Egypt	1.2	0.5

Source: Bank of England Quarterly Bulletin, 4 October 1979.

regarded as a little slow to get into the eurodollar business; in 1976 UK banks had approximately $40 billion of foreign currency deposits as against $35 billion for Citicorp alone. But the exposure, and earnings, are still very large.

The British interest in this matter has several aspects. The most obvious is the net invisible earnings of the banking community. They are not particularly large, however, in relation to overall invisible earnings (about £280 million net in 1977) and not all of this is derived from eurodollar business. More important is the interest in ensuring that the system of international payments financing does not go off the rails. This is partly because large-scale debt default would create serious repercussions for the British banking system to the extent that British banks are involved (and, even if they are not, because of general confidence factors). It is also important because the financing mechanism is inextricably tied up with the economic performance of borrowing and lending countries. The treatment of these extremely important issues will unfortunately be somewhat limp in this paper and will certainly be brief. This is not least because there appears to be little serious public discussion of, and virtually no recent research on, the formation of UK government policy towards developing countries in this area.

The most immediate impact of ldc substantial banking interest has been to help define the government's stance on the question of debt. The British Treasury, reflecting the views of the Bank of England and of the City itself, has been instrumental in lining up the British government in a policy of opposition to generalised debt relief. The government line has been that commercial debt should be clearly separated from 'aid debt'. The former may be dealt with by rescheduling, but that is a matter for consideration, case by case, by private creditors in a way that does not undermine the sanctity of the debt contract. The majority of UK bank claims on developing countries relate, in any event, to a handful of countries, Brazil, Mexico, Venezuela and Korea notably, which are willing and apparently able to conduct borrowing on entirely commercial terms. 'Aid debt' is a separate issue which has been dealt with by refinancing, or writing off, the debt, setting the cost against the aid budget. In 1978 the British made a significant initiative on 'aid debt' by making a retrospective adjustment of terms covering £900 million owed by seventeen of the poorest countries. Since the cost was charged against aid appropriations there was no net flow of resources to ldcs but there was a benefit to them from untying or (in the case of India) freedom to use the sum of debt relieved for local (rupee) costs. The position on commercial debt has remained firm, however. Nothing has come of suggestions, made within the government as well as from outside, that some degree of refinancing could be achieved for middle-income countries by setting up an international debt settlement bank which, with the help of loan guarantees, could help borrowers to restructure their debt with loans of longer maturity.

The debt issue has been put on the back-burner for the last few years, left to simmer in the custody of the existing institutions. With the renewed increase in oil prices, however, and the need for large-scale additional financing by non-oil ldcs, the problem has once more come to the fore. One might have imagined that major lenders would be becoming increasingly concerned about the prospects for major non-oil developing countries. These need to maintain not only sufficient growth of export earnings to service existing debt but confidence to finance increasing current account deficits. A conservative banker's instincts in this situation are to stop new lending to dubious borrowers but perhaps roll over debts to avoid default. It appears that most western Central Bankers are doing that, by setting formal or informal country lending limits. In Britain informal methods appear to be used (and there are a good many indirect ways of sending signals - by, for example, reducing the cover on export credits). This may safeguard the national interest by reducing the size of debt default if it occurs. But it does nothing to deal with the need for recycling as part of international macro-economic management.

To the extent that the British authorities have placed their faith in anything other than laissez-faire it has been directed towards the IMF. Having one of the largest quotas in the IMF, and thereby one of the largest voting rights, Britain has been in a position to influence the course of discussion on international financial matters. The precise role taken by the British representative is not possible to trace without inside information, but the UK seems to have been generally well disposed over the years to measures which have enlarged the function of the Fund in matters of interest to developing countries such as compensatory finance and increasing the size of IMF quotas and Special Drawing Rights allocations. To some extent Britain has had a common interest with developing countries in those aspects of international monetary management which make life easier for deficit countries. But Britain's problems have been largely specific. Our major preoccupation has been the need to phase out sterling's role as a reserve currency and, as can be seen from Table 17, existing arrangements to 'fund' the sterling balances have been successful in reducing their importance. Sterling accounted for around one-third of international reserves in the 1950s; the amount is now less than 1%.

There is no evidence that Britain has sought to go beyond expanding, modestly, the degree of financing to the extent of making the terms and conditions of IMF assistance more flexible, which will be necessary if developing countries are going to use the Fund's facilities on a greater scale (ie by seeking guarantees of policies which increase growth rather than merely deflate demand). Ideas, such as the SDR-aid link, which were put forward in the early 1970s by Treasury economists such as Professor Maynard, have not been persued more recently when the need is greater (since the reforms have been seen as merely another additional multilateral aid commitment). The British government could, if it wished undertake a substantial role in supporting the IMF's desire to play a more active part in the emergent recycling problem, since it has a large quota and is no longer in a begging posture itself. On most reasonable definitions of national interest there would be a strong British interest in seeing that an accommodation of non-oil developing country borrowers does take place, and on terms which do not have the combined effect of cutting their rate of growth.

Table 17 Sterling balances

End of period	£bn official sterling balances		£bn unofficial sterling balances	$bn official reserves	$bn outstanding official borrowing
	total	of which OPEC			
1971	3.2	-	2.4	6.6	1.4
1972	3.6	-	2.3	5.6	0.3
1973	3.7	0.9	2.3	6.5	3.0
1974	4.5	3.1	2.5	6.8	7.1
1975	4.1	2.8	3.2	5.4	3.9
1976	2.6	1.4	3.5	4.1	14.2
1977	2.8	1.4	4.9	20.5	18.0
1978	2.8	1.2	4.9	15.7	16.4

Source: Bank of England Quarterly Bulletins, 1979.

Raw material resources

The commodities question has dominated north-south negotiations since UNCTAD IV, and experience of the OPEC producer cartel had as profound an effect in Britain as in other Western countries. The issue does not, however, probably rank as important as some of those discussed above. One reason is that priority given to the subject by ldcs has now been somewhat lowered after provisional agreement on the Common Fund - though this seems likely to be a very modest venture. The other is that Britain is becoming significantly less dependent on developing countries for many important raw materials as imports are replaced by home products (oil, sugar beet), or by those of other developed countries (EEC food, minerals), or by technical substitutes. But this is not to minimise the current national interest (or, from a negative point of view, vulnerability), with 30% by value of foodstuff imports and 50% of non-renewable resources coming from developing countries. 'National interest' as regards raw material imports could be described in terms of availability and security of supply, prices as low as is consistent with maintaining adequate supply, and stability of price. It is, however, the different weighting between these objectives given by different countries which is problematical and has been the source of friction in north-south negotiations.

(i) Commodities policy in general

The British response to developing country demands for changes in commodity trade has attracted a good deal of criticism. This criticism was aired in a special Select Committee Report from the House of Lords and in the second Report of the Commons Select

Committee; 'Your committee have been puzzled by the extraordinary reluctance of the Departmental witnesses . . . to take the longer view, to grasp the broader vision, to adopt a creative stance that recognises difficulties as obstacles to be overcome rather than as excuses for inertia . . . even when national interests are involved'.(22) The fact that Britain came to be regarded as a 'hardliner' in the developed world does need a little explaining. It did not originate in any philosophical objections to intervention in commodity markets, as with the US and Germany (the latter's support for the CAP notwithstanding). Nor was there any unwillingness in principle to see the commodities problem as a generalised one. The Prime Minister's initiative at the Commonwealth Prime Ministers' Meeting in Kingston in 1975 reflected the government's preference for a 'case by case' approach but within a framework of general principles. Rather, the lack of enthusiasm was based on the way in which the demands had been formulated, through UNCTAD. Even when agreement was reached on a much more modest scheme than that originally envisaged, the agreement was regarded as a concession to developing countries, not as being in Britain's economic interest. The reasons for the general scepticism were broadly as follows:

(a) British government perceptions of the commodities problem were heavily influenced by painful experience, as an importer, of OPEC oil and fears that similar action could be taken with regard to other products. The Common Fund was initially seen as inextricably bound up with 'indexation'. The government's caution was justified by ministers in terms of the damaging effect on the UK of increased import costs, which for the 18 commodities initially identified by UNCTAD accounted for UK imports of £2.1 billion in 1974.(23) Reference to the stabilisation function of buffer stocks would meet the objection that it would not be possible to separate price-raising and stabilising activities, as exemplified by the difficulties of achieving agreement on existing or proposed International Commodity Agreements (eg tin, cocoa and rubber), because of the absence of either an agreed ceiling price or a willingness on the part of producers to support it. Counter-arguments about the 'ratchet effect' of unstable prices or more generally (Lords Committee) 'a widespread advantage from more stable commodity prices'(24) evoked little apparent interest and do not appear to have figured prominently in representations by industrial raw material users.

(b) Financial considerations played a major part. The Treasury was known to be hostile to any increase in public expenditure and the official view was that the Common Fund would only be supported 'at reasonable cost'.(25) The Parliamentary Select Committee made much of this phrase, arguing that 'we were nonplussed to find that witnesses not only had no idea of what the benefits were likely to be but also knew of no estimates of such benefits to set against the modest contributions'. In the event, the Treasury did agree to a £25 million contribution mainly of guarantees rather than cash; (the magnitude of the promised contribution to the 'second window' has not yet been spelt out and will probably come from the aid budget).

(c) The government was undoubtedly swayed by advice from private sources that the Common Fund proposal was contrary to their and, by implication, the national interest. Journalistic attention was directed to the influence of RTZ executives, two of whom apparently served on secondment to the relevant departments of the government at the time of UNCTAD IV, and that company was particularly influential in the metals field. Dr. Jeremy Bray MP referred more generally to the influence of a 'great many old war horses from some of the international companies who are not perhaps the most disinterested parties'. (26) A set of complementary views came from the commodity brokers, who were very much opposed to governments meddling - as they saw it - in commodity trade, especially when it would diminish the role of the London market. To the extent that government-managed buffer stocks are successful in reducing instability they reduce the role of the futures market which currently performs a similar function and provides a profitable living for dealers on the London Commodity Exchange (sugar, cocoa, rubber, coffee, etc), the Metal Exchange (copper, tin, lead and zinc) and the Baltic Exchange (grain, oils and fats). Although the CF is designed to work through commodity markets, private traders have tended to see it as part of a generalised movement towards market regulation by governments and contrary to their interests. Among British trading firms which may lose from such a movement are Ralli Bros. (the world's largest cotton traders - also with major interests in hardwoods and other commodities), Beresfords and Tate and Lyle (Britain's 23rd and 25th largest companies - each bigger than Lonhro - on the strength of their turnover in sugar), and the tea companies such as Brooke Bond. The only tangible support, however, for the CF idea ultimately came from within the City, from a group of entrepreneurs who wanted to attract the CF to London and thereby strengthen London's role as a centre for international agencies. Government enthusiasm for this idea has since diminished after it was admitted that a large subsidy would be necessary.

(d) Apart from arguments about national and sectional interest, there was intellectual support from economists inside and outside government who sought to show that the costs and benefits of the CF were likely to be arbitrary and inequitable.

The government's declared view was that there should be a 'case by case' approach and that Britain would, as it had in the past, support viable schemes. Now that the CF has been set up giving substantial autonomy to individual ICAs, the conviction behind this policy will be tested. It may well prove wanting since most of the worries about a Common Fund, above, apply also to individual schemes. So far, Britain has opposed a copper ICA. It has been, reluctantly, prevented from supporting the International Sugar Agreement by EEC policy. It supports in principle rejoining the cocoa, tin and coffee agreements or a new rubber agreement, if agreement can be reached on price bands.

(ii) <u>Industrial raw materials</u>

As can be seen from Table 18, Britain is highly dependent on imports for almost all its metal and mineral requirements, and much of its other industrial raw material needs. In several cases developing countries are the dominant source of supply (bauxite and alumina, copper, tin, niobium, phosphates) and they account for an important share of others (iron ore, manganese, chromium, cobalt, molybdenum, tungsten, sulphur and silver). This dependence has created concern both over the effect of possible price-raising measures and over 'security of supply'.

The dependence is, however, not as great as it appears at first sight and is lessening. This is one of the happier by-products of British economic stagnation. Between the years 1964/5 and 1974/5, UK consumption of metals actually fell for all but 5 out of 23 leading metals and minerals (the main exceptions being chromium, cobalt (5% annual growth) and potash (5% also)). This meant that the UK 'could stay within its traditional obligations without mounting an aggressive search for new supplies as the Japanese and to a lesser extent the Germans and French have been compelled'.(27) In addition, there has been a gradual process of technical innovation and product substitution. Of those minerals imported in bulk only a few cannot be substituted in their most common uses (iron ore, titanium, tungsten, uranium, phosphates and potash). Finally there has been a gradual switch of investment and procurement to more 'secure' sources, mainly Canada, Australia and the US. One of the major complications, however, in current UK minerals policy is that what was formerly regarded as one of the 'safe' suppliers, South Africa, is now proving a highly problematic one, raising awkward questions for the UK about future supplies of manganese, chromium, platinum, asbestos, vanadium, uranium and gold.

Since price-raising fears have receded in the short run with the failure of CIPEC (copper), the very modest success of the IBA (bauxite), and lack of progress of the iron ore producers' club, the emphasis of debate about policy has shifted to long-term questions of supply. The British government, like others in the EEC, has been lobbied and apparently persuaded by mining companies, and other industry groups such as the CBI, that national interests are involved in reducing the degree of political risk in overseas mining investment. This lobbying appears to have effectively determined the EEC negotiating position on the Lomé Convention. It has also coloured policies towards the Law of the Sea; Britain supported the position of most other Western countries that 'dirigiste' measures should not be taken which undermine the willingness of private corporations to invest in deep sea extraction. The argument of the mining companies is that the threat to mining investment has come primarily from the unreliability, or lack of stability, of 'third world' governments: 'there is now growing concern that political risks may be distorting the location of investment in raw material production and are thereby inhibiting the exploration of other economic deposits in politically less stable areas'.(28) There are, it should be said, quite different explanations for the apparent dearth of mining investment, which place the onus rather more squarely on the companies and the consuming countries.(29)

Another aspect of the supply security question, and one of more immediate concern to UK producers, is the attempt on the part of developing countries to force the pace of export processing

Table 18 UK mineral dependence

Product	Import dependence (% of demand)	'Vulnerable' main sources (% of imports)	Main suppliers	Comments on supply situation and reserves
Aluminium	62	bauxite: Ghana (72) alumina: Jamaica (78)	Ghana Jamaica	Biggest reserves in Guinea and Surinam. Substantial substitution.
Copper	82	Zambia (29), Chile (20), E. Bloc (3), Zaire (2)	Zambia, Chile Canada (20)	Biggest reserves in USA/Chile. Major UK interest in Papua New Guinea (RTZ). Substantial substitution.
Lead	46	Peru (3)	Australia (70)	USA main reserves. Substitution.
Nickel	100(excl. scrap)	-	Canada (87)	Major reserves in New Caledonia.
Tin	65	Bolivia (47) Nigeria (16) Malaysia (9), S. Africa (5)	Bolivia	Indonesia and Thailand major reserves. Loss of UK multi-national interest (Malaya). Major substitution (with zinc).
Zinc	100	Peru (10), E. Bloc (5)	EEC (31)	US/Canada main reserves.
Iron ore	89	Brazil (15) Mauretania (9), Venezuela (9), USSR (6), Liberia (3)	Canada (20) Sweden (19)	Major reserves in Brazil, Australia and Canada. No substitutes in main uses.
Manganese	100 (ore only)	S. Africa (31), Brazil (29), Gabon (18)	S. Africa, Brazil	Reserves mainly in S. Africa/ USSR. Deep sea nodules. No substitute in steel making.
Antimony	100 (metal only)	-	EEC (92)	Reserves in Mexico, Bolivia, S. Africa. Substitute in battery use.

Table 18 - continued

Cadmium	100	S.Africa (9), E.Bloc (8)	Canada (28)	Bi-product of zinc.
Chromium	100 (ore and ferro-chrome)	S. Africa (39), Philippines (29)	S. Africa	Reserves mainly S. Africa/ Rhodesia. Extensive sub-stitutability.
Cobalt	100	(n.a.) Zambia and Zaire important	US important	Major reserves in Zaire, New Caledonia. Partial substitut-ion (electrical); not in air-craft use. Deep sea nodules.
Niobium	100	Brazil (82)	Brazil	Important in special steels.
Germanium	100	n.a. (Zaire and Namibia important)	-	Important in high frequency electronics.
Mercury	100	USSR (25)	EEC (34)	Big reserves in Spain. Few substitutes in electrical use.
Platinum/ Palladium	100	S. Africa (41), USSR (6)	S. Africa	Main reserves in Bophuthatswana. No substitutes in car use.
Molybdenum	100	Chile (13)	USA (30), Canada (31)	Few substitutes. Only 5 mines in world.
Solarium	100	Mexico (5)	Canada (40)	Big reserves in USA/Chile
Tantalium	100	n.a.		Main reserves in Zaire. Important in electronics.
Titanium	100	-	Australia (68) - ilemnite. Australia (99) - nitrite	Reserves Norway & Canada. Reserves in India. No substitutes in main use - aero engines.

Table 18 UK mineral dependence - continued

Product	Import dependence (% of demand)	'Vulnerable' main sources (% of imports)	Main suppliers	Comments on supply situation and reserves
Tungsten	99.5	E.Bloc (14), Thailand (15), Rwanda (5), Bolivia (5), Malaysia (5)	Portugal (21)	Main reserves in Canada/USA. No substitute in main use.
Vanadium	100	S. Africa (55)	S. Africa, Finland (42)	Main reserves S. Africa. Some interchange between alloys.
Uranium	100	n.a. (mainly Namibia and Australia)		Main reserves Australia, US & S. Africa. No easy substitute for nuclear purposes.
Phosphates	100	n.a. (mainly Morocco and S. Africa)		No direct substitute. Reserves in Morocco and S. Africa.
Potash	57	E.Bloc (46)	EEC (35)	No substitute. Reserves Canada

Source: A highly abbreviated summary of the contents of the data base appended to P. Crowson: Non Fuel Minerals and Foreign Policy, Chatham House, 1978.

by witholding exports of raw materials from the world market. This has seriously affected the current world market in hides and skins, due to action from India and Brazil, and the British government, acting in response to pressure from its tanning lobby, led by the redoubtable former Labour whip Mr Robert Mellish MP, has been trying to persuade the EEC to introduce a hides export ban to protect European processors. Similar problems are building up with tropical timber and bauxite. This as yet modest but important issue illustrates well the way in which British interests in relation to developing countries are changing as economic structures become more competitive and less complementary.

(iii) Energy

Britain has advanced within a short period from being almost entirely dependent on oil imports to virtual self-sufficiency in energy. It will shortly import fuels only for specialised purposes (coking coal) or in order to achieve a better mix of crudes for its refineries, or of products. The implications of this change for international economic policy have not yet become at all clear, but there are several ways in which it has affected Britain's relations with developing countries, especially those that export oil.

First, it has produced a convergence of interest with OPEC in higher oil prices. North Sea oil prices now follow those of OPEC producers (notably Nigeria) very closely. The major economic advantage of higher prices is that they raise the profitability of exploration and production at the margin, thereby prolonging the economic life of North Sea oil and creating the possibility of an exportable surplus. But Britain is not likely to be a net oil exporter of any magnitude and, as such, it does not stand, as a nation, to gain substantial economic rent as a result of being able to sell its oil overseas; higher prices within Britain merely represent transfers between public and private sector consumers, and public and private sector producers.

Second, oil made a net contribution to the balance of payments of £4 billion in 1978 (to rise to £9 billion by 1985). It has thus helped to alleviate (or appeared to do so at least) the balance of payments problem which has always in the past been invoked as an excuse for not pursuing more imaginative policies in the aid and trade field. In practice, however, oil seems to have merely changed the nature of the balance of payments problem. By engendering optimism about British economic prospects in the foreign exchange markets it has helped to drive up the exchange rate, helping to reduce imported inflation but eroding further the competitiveness of manufacturing exports and import substitutes. The effect has been to intensify the state of crisis in the weaker, labour-intensive, import-competing industries, and also in export industries. This in turn has triggered demands to protect exports (by increasing aid-tying) and import-competing industries (from 'low cost' developing country competition).

Third, the North Sea has contributed to a gradual process whereby British firms have had a declining direct interest in developing country oil development. The North Sea has acted as a 'pull' on the oil companies while nationalism in OPEC countries has acted as a 'push'. Shell is now mainly concerned with buying and distributing others' crude and its former ldc oil interests (eg Venezuela) have been nationalised. BP has been more involved in overseas production, but it has now lost its Nigerian assets and is overwhelmingly concerned with the North Sea and Alaska. There have been tentative links between BNOC and the new state oil companies in developing countries but this is on a very modest scale. The disengagement of private companies is part of a larger process whereby Britain's dependence on OPEC oil as a source of energy and of profit has declined to a very low level.

(iv) Food

As can be seen from Tables 19 and 20, Britain differs substantially from the rest of the EEC in the low level of self-sufficiency in food items, especially in several products for which developing countries are major suppliers (oils and fats, sugar, fresh fruit and vegetables, and beef). There is a tradition of openness to food imports going back to the mid-nineteenth century. This has in the past created a complementarity of interest between developing country (and other) exporters and British consumers in matters agricultural. The UK can still normally be relied upon to put up a strong case for extending tariff preferences on agricultural items or reducing the protectionist element of the CAP (eg tobacco, rice, vegetable oils). The most important issue has been sugar, where the interests of consumer and cane-producer countries are reinforced by those of substantial British companies (Tate and Lyle and Bookers in cane production; Beresfords in importing). Moreover, Britain's sugar refineries are geared to imported cane and several are situated in sensitive areas such as the Deptford constituency of Mr John Silkin MP, whose reputation as the 'Beast of Brussels' was partly acquired on the sugar issue. Even the present, Conservative, Minister of Agriculture, speaking for a party better disposed to the EEC and to the farmers, recently declared in Parliament, 'EEC exports of sugar have endangered the stability of a number of countries and, secondly, they have cost £500 million to the budget and therefore to the Exchequer. The Commission had made proposals for freezing prices . . . we shall certainly fight (increases)'.(30)

But the British position is gradually changing. It has been obliged to accept the CAP and, despite some spluttering, Ministers usually swallow price increases favoured by the rest of the Council of Ministers (as in the sugar case above). More significantly, the CAP has reinforced a tendency in British agriculture already evident long before EEC entry, towards increased national self-sufficiency, at least of final output (from roughly one-third in 1938 to two-thirds today). Greater self-sufficiency was the declared policy of the 1975 White Paper on agriculture (Food from our Own Resources). The effects are to be seen in sugar. British acreage under beet, which is subject to quotas, has been expanded substantially in recent years (see Table 21), while it is being contracted in Germany and France, the argument being that British production is more efficient within a given EEC output. This expansion has created a strong beet interest, which was reflected in an interview given by Prime Minister Callaghan in Barbados in 1979, warning his West Indian hosts that Britain's position as a growing beet producer acted as a constraint on its support for Caribbean sugar interests. The Conservative government currently appears to support the opposition of the beet growers and the British Sugar Corporation to

Table 19 Degree of agricultural self-sufficiency (1975) (%)

	UK	EEC - 9
Meat	75	96
Butter	11	100
Cheese	68	104
Cereals	65	87
Vegetable oils and fats	3	26
Vegetables	75	95
Sugar	29	102
Wine	--	98
Overall	64	93

Source: MAFF: EEC Agriculture and Food Statistics, 1975-76

Table 20 Value of UK food imports from developing countries; and renewable resources

	Value of imports 1977 (£m)	% from ldcs
Beef	1699	9.9
Fish	366	13.9
Maize	501	3.2
Rice	96	13.5
Fruit & vegetables (fresh) (processed)	1943	28.0
Sugar	745	71.9
Coffee	496	89.1
Cocoa	385	98.3
Tea	585	90.0
Animal food	365	26.5
Tobacco	392	58.9
Hides, skins and furs	367	11.2
Oil seeds	522	21.0
Rubber (natural)	290	55.9
Wood (rough and shaped)	1104	13.4
Wool	412	20.6
Cotton	711	45.0
Jute	22	96.0
Vegetable oils and fats	281	80.0

Source: OECD Trade Statistics.

Table 21 Area sown to sugar beet (million hectares)

	Germany	France	UK
1971/3 (average)			191
1974	369	534	194
1977	434	542	204
1978	412	523	207
1979	405	500	214

Source: Answer to Parliamentary Question, 25 May 1979.

cuts in planned beet production proposed by the European Commission. Cane sugar exporters are not only being threatened by import substitution in the UK (at what many agriculturalists regard as an unacceptably low return from the land) but also by the closure of Tate and Lyle refineries which are based on cane imports. The old consumer/overseas producer/domestic processor coalition is still there, but it is being eroded by the force of domestic agricultural interests rationalised in such terms as the 'interests of the consumer are not in lower prices but . . . security and continuity of supply in the future'.(31)

Pulling these various strands together is a little difficult since there are different problems associated with different natural resources. But there are ways in which Britain's interests as a raw material consumer are not, or are in danger of not, being met. One relates to the medium- and long-term supply of industrial raw materials, where the original Kissinger Resources Bank proposal may contain at least the germ of a good idea. For other Western countries supply questions revolve around energy and Britain's external interests here are either indirect or very long-term. Britain's interests in obtaining foodstuffs at the cheapest price have not been entirely extinguished by the EEC. If all these interests are to be realised, especially those relating to mining products, it will almost certainly be necessary to reach some kind of agreement with producers which recognises the latter's interests in stabilising prices and/or earnings around a rising trend, and in increased processing. Constructive discussion of the main elements in this kind of trade-off have been put to one side in the hassle surrounding the Common Fund, but it may now be the time to return to them.

Beyond economics: strategic and political issues

British strategic interests are now - in terms of direct military security - almost exclusively confined to NATO and to the maintenance of the relationship between the United States and Europe on which the alliance depends. The global network of defence interests and obligations which Britain was party to - SEATO and CENTO - ceased to have any meaning for Britain following the decision, on economic grounds, to withdraw from 'East of Suez' in the late 1960s. The main British military activity outside of the NATO area consists now of handfuls of troops in colonies to which there is a somewhat grudging defence obligation; to Hong Kong and Belize in particular.

But this military withdrawal is not the same as a loss of strategic interests. Much of British foreign policy in the 'third world' is conducted under the assumption that there is a competition for influence, and thence for economic and military control, between the West and the Soviet Union and its allies. This perception may have become more complex and blurred than it often appears in the United States, but the events in Afghanistan and the advent of a Conservative government have strengthened the hand of those who argue that Britain has direct strategic interests in those parts of the 'third world' in which growing Russian influence is feared. According to a very rough international division of influence with the United States, the British have sought to use their local knowledge and sources of intelligence in the conservative Gulf states, in the English-speaking Caribbean, and English-speaking sub-Saharan Africa in an overall 'Western' interest. The effectiveness of this role has been diminished, however, by an unwillingness, unlike the French, to act decisively with troops in critical situations, though in one important case, Oman, intervention has been militarily successful. Moreover, British priorities in some 'strategically sensitive' areas - Southern Africa and the Caribbean - are still more concerned with orderly and dignified withdrawal than with any serious belief that political events can be controlled in the long run, at least by Britain. It remains to be seen whether the present government will translate its heightened consciousness of British strategic interests outside the NATO area - in South Asia, for example - into a combination of military, diplomatic, trade, migration and aid measures which would give verbal commitment a more concrete form.

There is another strand to strategic thinking which is less precise but may ultimately prove more important. This is the uneasy feeling that tensions stemming from dissatisfaction with international economic inequality will ultimately acquire a military dimension, (as Frank Judd) 'I see economic aid to developing countries as the same kind of insurance policy as our defence commitment. In one sense my move from . . . the Department of Defence (to the ODM) . . . was a logical translation from dealing with a possible threat to our security to coping with a situation that, if allowed to fester, will create the kind of tensions that enhance the threat'.(32) It is difficult, however, to proceed from the general to the particular. Current 'third world' sources of tension, in the Middle East or Southern Africa, are highly specific. The connection between actual and potential sources of tension and policies designed to improve north-south economic relations is tenuous. It could be argued, cynically, that 'third world' countries are more of a threat to stability when rich and able to acquire weaponry (like Libya) than when poor. Moreover, the idea of 'global Maoism' - the poor 'third world' village rising up against the rich 'first world' cities - has received a considerable setback with the almost total withdrawal of Chinese sponsorship. But to leave matters there would be altogether too complacent. There are many ways in which the cooperation of 'third world' governments is necessary to preserve the most basic elements of order and stability, for the protection of nationals resident overseas, for the prevention of terrorism, for the control of infectious diseases, and for some discipline in the traffic and use of nuclear weapons. This cooperation will not necessarily be obtained spontaneously or in some cases without inducement. It will certainly be easier to obtain if 'third world' governments see mutual benefit in recognising the rules of the international game and feel that they have had a hand in framing them. This applies not only to strategic questions narrowly defined but to those where strategic and economic issues become entangled, such as the supply of 'strategic' raw materials.

It is probably carrying a zeal for classification too far to list '<u>political</u>' as distinct from economic and security interests, since they are necessarily interrelated. British governments no longer play a global political role of any great importance, because of the contraction of military and economic horizons, but there is often a lingering wish to try to influence events and to indulge in the luxury of sitting at the 'top table'. One example is the British role in the UN, notably as a permanent member of the Security Council. To some extent British interests are directly served, as when the UN becomes involved in Southern African questions and in particular Rhodesia, but, over and above that, permanent status is largely a matter of prestige. The CPRS report was critical of the distortion thereby introduced into British policy-making: 'permanent membership has tended to foster the illusion that the UK has a greater world role than it is in practice within its power to perform; and it has obliged the UK to involve itself more in the UN's activities generally than is justified . . . by national interests'. The report dealt in a similar manner with the Commonwealth, acknowledging its usefulness as a network of positive bilateral relationships but concluding that 'we do not think . . . that the government need devote a large amount of resources (nor does it at present) to the Commonwealth ideal'.(33)

An additional (if related) political objective to the wish to be involved in climbing in the uplands of 'high diplomacy' is a strong concern for the country's image overseas. This is largely created by factors outside the control of foreign-policy makers - the state of race and industrial relations or strikes, for example - but the handling of 'north-south' relations is one element. William Wallace has described how concern for 'image' is a powerful factor in explaining the size of the aid programme:

> 'any government of an industrially developed country which wants international respect must support an aid programme and make a contribution to international development . . . In general outline the size of the programme and its future growth have become an automatic obligation consequent on the government's

status in the international community: maintained not so much in the hope of exerting influence as from a recognition that any significant reduction would damage Britain's image abroad'.(34)

But questions of image and prestige are peripheral, even if they appear important to diplomats and politicians (especially if they are British or French). At the heart of the argument about 'a new international economic order', and the Western response to it, is a question of political power: the wish of newly emergent nations, or at least of the elites who run them, to be involved, and to be seen to be involved, in running international institutions. In short, they want to have more say, and Britain - among others - to have less, in running the IMF, the World Bank, the GATT and other lesser arrangements. If these governments are to play a role in creating more ordered international relations, the institutional changes will have to take place. There is some sign of this being recognised on a small scale; in the better balanced relationship between Mexico and the US, in proposals (if no more) that Brazil and Korea, for example, should be offered the privileges as well as the obligations of membership of the OECD, and in the letter, if not the substance, of some of the EEC's relationships with developing countries.

Consideration of strategic and political questions still leaves one other major consideration, which is a moral one. There is no evidence that British governments have been impressed by 'moral' arguments for widespread reform of the international economic system. But moral arguments have featured prominently in discussions of aid and this merits more extended treatment.

The Aid Programme

Aid is dealt with separately here, since the programme subsumes a variety of 'interests', commercial, military and political, as well as its ostensible moral purpose. In this brief review an attempt is made, very roughly, to assess the mix. But any analysis based, as it must be, on recent history must be incomplete, since recent history reflects the priorities of a Labour administration, now out of office. Table 22 gives the salient characteristics of the programme seen comparatively in 1977. The UK was slightly below the median for the main 18 DAC aid donors. Aid transfers have been in the range of 0.35 to 0.40% of GNP for most of the last decade under governments of both parties. Aid terms are currently somewhat better than most other donors' in terms of grant content, and of the share of multilateral aid, of aid to agriculture, and of aid to the poorest countries. The share of aid to the poorest countries was almost certainly raised further with the implementation of the 1975 White Paper. The question we wish to answer here is to what extent the current aid programme - however disinterested its declared objectives - serves British interests.

According to ODA's own estimates, about 45% of the bilateral aid programme (capital and technical) is wholly or partially tied to British exports. But this may be an underestimate; Adrian Hewitt estimates that when 'gentlemen's agreements' and ex-post tying are included the figure for capital aid could rise to two-thirds.(35) It has also been reported that, since 1977, 5% of bilateral aid is automatically allocated to promote

Table 22 Comparative aid performance 1977

Country	(1) Net oda $m	(2) (1) as % of GNP	(3) net oda per capita $	(4) Grant equivalent of aid %	(5) Share of low income countries in net oda %	(6) Share of untied aid %	(7) Share of aid to agriculture %	(8) Multi-lateral aid share %
Canada	991	0.51	42	97.5	60	51.5	19.4	32.1
France	2,267	0.60	42	93.4	26	40.8	8.3	13.0
Germany	1,386	0.27	22	86.0	58	76.3	15.7	32.9
Italy	186	0.10	3	99.2	20	81.2	11.5	74.4
Japan	1,424	0.21	12	70.2	90	43.8	9.6	26.9
Netherlands	900	0.85	65	91.1	38	48.0	27.3	25.3
Sweden	779	0.99	95	99.8	77	80.8	15.1	31.7
US	4,159	0.22	19	88.9	45	27.3	28.1	31.9
UK	914	0.37	17	96.8	56	46.7	21.2	34.5
Total (DAC)	14,696	0.31		89.3	47	47.2	14.2	29.0

Source: Derived from OECD 1978 Review of Development Cooperation.

Notes: (1) Net oda consists of net (less repayment) disbursements of concessional official development aid.
(4) Based on interest rate, maturity and grace value. The market rate of interest is taken as 10%.
(5) Low income countries are those with per capita income under $400.
(6) Share of gross disbursements.
(8) Multilateral aid includes aid channelled through EEC. This constitutes 60% of French multilateral aid, 62% of German, 65% of Italian, 27% of Dutch and 18% of British.

British exports under 'credit mixte' schemes. Limitations on aid available for local-cost financing also have the effect of encouraging recipients to put forward projects which incorporate a high foreign-exchange - and British - content. This has considerably weakened the commitment of the aid programme to satisfying 'basic needs' in aid projects in rural areas, especially in poor Asian countries such as India. Projects of this kind are likely to have a very low import content. The benefits to British firms are further extended by the long-term effects of creating a market for spare parts and for replacement of equipment supplied under aid. This degree of tying has given ODA economists scope for arguing with the Treasury that the aid programme 'benefits' the balance of payments almost as much, if not more than, it costs and for Ministers to argue that 40,000 jobs are a direct result.(36)

In fact, the benefits to British exporters are almost certainly less than this implies (and the benefits to developing countries correspondingly larger), a conclusion borne out by detailed micro-level work by Dobson and May on the impact of the British aid programme in the 1974-78 period.(37) First, many firms interviewed were 'certain that they would have received the order in any case eventually and that aid finance had not won them any extra business. In other words aid was mainly trade-diverting and not trade-creating'; 36% of firms in the interview sample claimed that the goods would have been produced and exported anyway. This is particularly likely to be the case where (as in India) the recipient government does not pass on the benefits of concessional terms to the purchasing body. Second, where firms are operating at full capacity there are opportunity costs if orders are additional. The Dobson and May survey found that 28% of respondents were in this position, and there was particular complaint from industries characterised by trade-cycle problems that aid orders did not help them to de-synchronise the cycle. Third, there was little support for the existence of substantial indirect benefits from spares (a 'small minority' of firms) and follow-up orders (the 'vast majority' said 'no').

But the survey did bring out several ways in which aid was particularly useful to British firms. Almost two-thirds of tied aid orders <u>did</u> appear to have been additional business and almost three-quarters <u>were</u> to firms with spare capacity. Regions with high unemployment, especially Scotland, appear to have benefited; 55% of aid orders went to assisted regions ('intermediate', 'development' or 'special development' areas) and 24% to 'special development areas' in Scotland, ie Clydeside. Amongst the industries which benefited particularly were iron and steel (7.5% of orders as agains 1.2% of all UK exports to ldcs), electrical machinery (15% as against 10%), non-electrical machinery (33.3% as against 24%) expecially textile machinery, transport equipment (22% as against 15.4%), and fertilisers (3.4% as against 0.3%). The effect on employment was difficult to assess, and could not be arrived at by applying crude labour output coefficients (which simply ignore the way in which large firms meet incremental business by re-ordering production schedules and extending overtime). Two-thirds of the sample said the effect on employment was 'nil or negligible' but a quarter identified 'a noticeable positive effect', and in some cases aid business kept firms operating which would otherwise have gone into liquidation.

A fuller judgement of the impact of the aid programme on the UK economy will have to await the publication of other work dealing with the 'macro' as well as the micro-level impact of tying. But there seems little doubt that, while particular firms and regions derive substantial added benefit from the aid programme, there are also elements of disinterestedness. This has prompted the complaint that 'the UK may have derived less commercial benefit from its aid programme than other countries which have adopted a more commercial approach to development assistance'.(38) The pressure from private business has subsequently been on the ODA to 'correct' this imbalance despite the strong recommendation from Parliament that 'aid cannot legitimately be used as a covert means of subsidising British exports or distorting the import demands of aid receiving countries'.(39) The present Conservative government has given firm indications that it intends to tighten the degree of commercial tying. Quite apart from the effects of this on the quality of the aid programme, questions might legitimately be asked about the degree of consistency with other aspects of economic policy which appear to be based on the assumption that there is no major balance of payments constraint and that British business would benefit from less rather than more government assistance.

While there has been a strong preference for commercial tying, British aid has been largely free from political strings and has thereby acquired 'an enviable reputation for relative disinterestedness and political neutrality'.(40) The 1965 White Paper made the realistic, as well as virtuous, assessment that 'aid is not a means of winning the friendship of individual nations',(41) (though it also qualified this judgement). The 1975 White Paper gave a stronger push to the idea that aid should be allocated according to economic need defined in terms of poverty. There are exceptions. Approximately 10% of the aid budget goes to small dependencies with a relatively high per capita income, but this is hardly a strong political 'bias'; most of these territories are British 'interests' only in a negative sense. Exception could also doubtless be taken to the relatively high per capita aid allocations to 'friendly' Botswana and Kenya, but in each case a strong supporting rationale would be the efficiency with which these countries use aid. More subjective criteria have been used in imposing 'human rights' judgements but only a handful of extreme cases have been affected so far. Some in developing countries see the allocation of aid as reflecting 'neo-colonialist' priorities and interests but this would not be fair comment on the British programme (see Table 23). But this may also change in response to a recent declaration by the responsible minister in the present government that 'I don't think there is anything incompatible in using aid to further foreign policy. Our foreign policy is a very good one and it is in the interests of the peace of the world'.(42)

What is of greater importance, however, than the issue of aid allocation is the size of the aid budget, a subject which debate on aid has managed to fudge in recent years by concentrating on allocation questions. Under a succession of governments, all with the declared object of assisting developing countries, it has proved impossible to raise the net oda flow much above half the Pearson target of 0.7% of GNP and to not much more than an eighth of the 3% of GNP which Harold Wilson once thought feasible. It has always been objected that there is a balance of payments constraint, which has

Table 23 Gross aid disbursement of British aid by country (£ million)

		1973	%	1978	%
Total		284.4		733.4	
Bilateral	Africa	64.7	22.8	174.6	23.8
	Botswana	3.3	1.2	5.6	0.8
	Kenya	11.7	4.1	29.2	4.0
	Malawi	6.9	2.4	16.0	2.2
	Nigeria	7.8	2.7	9.8	1.3
	Sudan	1.1	0.4	7.0	1.0
	Swaziland	3.4	1.2	8.7	1.2
	Tanzania	1.5	0.5	10.4	1.4
	Zambia	7.0	2.4	33.3	4.5
	Americas	25.4	8.9	53.4	7.3
	Brazil	0.5	0.2	0.7	0.1
	Mexico	0.3	0.1	0.8	0.1
	Jamaica	3.3	1.2	19.6	2.7
	Guyana	0.7	0.3	6.4	0.9
	Falklands	0.2	0.1	2.1	0.3
	Belize	1.6	0.6	3.9	0.5
	Dominica	1.3	0.5	2.6	0.4
	Asia	89.9	31.6	218.7	29.8
	India	49.3	17.3	118.9	16.2
	Bangladesh	2.7	1.0	44.0	6.0
	Pakistan	4.4	1.5	18.2	2.5
	Sri Lanka	2.1	0.7	8.3	1.1
	Europe	9.8	3.4	17.1	2.3
	Portugal	-	-	10.4	1.4
	Oceania	13.8	4.8	30.4	4.1
Multilateral		62.6	22.0	191.3	26.0

Source: Answer to Parliamentary Question, 25 May 1979.

now become a public expenditure constraint. In truth, the problem is not a technical but a political one; the priority given to development assistance is low.

Notes

(1) CPRS, Review of Overseas Representation, HMSO, 1977, p. 10.

(2) Sir Ian Gilmour, spokesman for the Government. House of Commons Debates, 18 May 1979. Col. 555/557.

(3) First Report from the Select Committee on Overseas Development (1977/78), Trade and Aid, Vol. 2, p. 382.

(4) ibid.

(5) Much of the section below is taken from Lawrence Freedman, 'Britain and the Arms Trade', International Affairs, July 1978; and by the same author Arms Production in the United Kingdom: Problems and Prospects, Chatham House, Research Papers, 1978.

(6) M. A. Husain 'Third World and Disarmament', Third World Quarterly, 1979.

(7) Lawrence Freedman, op. cit.

(8) Estimates vary depending upon how 'services' are defined. Another, lower, set of figures can be found in Committee of Invisible Exports, World Invisible Trade (various years). But the trend is the same. A much fuller statement of the facts and an analysis of UK trade in services with ldcs is contained in an unpublished paper by C. Stevens, ODI Mimeo, 1979.

(9) Committee on Invisible Exports, How Entry into the Common Market May Affect Britain's Invisible Earnings, 1971.

(10) House of Commons 21st Report from the Select Committee on European Legislation: session 1977/78 Liner Conferences, 12 April 1978.

(11) Foreign and Commonwealth Office, The Newly Industrialised Countries and the Adjustment Problem, Government Economic Service Working Paper No. 18, 1979.

(12) V. Cable and I. Rebelo, Britain's Pattern of Specialisation in Manufactured Goods with Developing Countries and Trade Protection, World Bank Research Paper (to be published shortly).

(13) For a summary of current evidence, see F. Blackaby (ed.), Deindustrialisation, Heinemann, 1979. Quote from M. S. Houthaker and S. P. Magee, Review of Economics and Statistics, 1969.

(14) OECD, Economic Surveys, United Kingdom, March 1979, p. 17.

(15) Technical Effort and Economic Performance: Some International Comparisons, SPRU (Draft paper: 3 April 1978).

(16) Blackhurst, Tumlir and Marian, Studies in Trade Liberalisation No. 5, Geneva, 1977.

(17) CBI evidence to the Select Committee on Overseas Development (1977/78), Trade and Aid, Vol. 2, p. 302.

(18) TUC Annual Report, 1979, pp. 35-39.

(19) C. Stoffaes, La Grande Menace Industrielle, Paris, 1979.

(20) J. Dunning, 'The UK's International Direct Investment Position Mid 1970s', Lloyds Bank Review, April 1979. W. B. Reddaway, The Effects of UK Direct Investment Overseas, Cambridge Department of Applied Economics Occasional Papers, 1979.

(21) CPRS, The Future of the British Car Industry, HMSO, 1975, p. 50.

(22) Second Report of the Select Committee for 1976/77 (HC 222) - para. 85.

(23) Michael Meacher, House of Commons Debates, 13 June 1977.

(24) House of Lords Select Committee Report on Commodities, London 1977.

(25) Trade and Aid, op. cit., Vol. 2, p. 64.

(26) Dr. Bray, House of Commons Debates, 13 June 1977.

(27) P. Crowson, Non-Fuel Minerals and Foreign Policy, Chatham House Research Papers, 1978.

(28) Speech by Edmund Dell, Trade and Development: Opportunities and Constraints, Conference on European Business in World Development, London 1977.

(29) M. Faber and R. Brown, 'Changing the Rules of the Game: Political Risk, Instability and Fairplay in Mineral Concessions Contracts', World Development, January 1980.

(30) Peter Walker, House of Commons Debates, 13 June 1979.

(31) John Body, House of Commons Debates, 13 June 1979.

(32) F. Judd, Challenges of the Rich Poor Relationship, ODA Paper No. 6, 1977.

(33) Review of Overseas Representation, op. cit., p. 8.

(34) William Wallace, The Foreign Policy Process in Britain, George Allen & Unwin, p. 190.

(35) A. Hewitt, 'British Aid: Policy and Practice', ODI Review, No. 2, 1978.

(36) Judith Hart, address to World Bank Seminar on 27 June 1977.

(37) N. Dobson and R. May, 'The Impact of the Aid Programme on British Industry', ODI Review, No. 2, 1979.

(38) Trade and Aid, op. cit., Vol. 1, pp. xxl-xxii.

(39) ibid., p. vii.

(40) ibid., p. vii.

(41) Overseas Development, HMSO, 1965.

(42) Press Report of Lords' discussion on government statement; Wednesday, 20 February 1980.

V. CONCLUSIONS

Increasing attention is being devoted to analyses of relations between developed and developing countries in terms of 'mutual interests'. At the very least they give us criteria for decisions which may be more comprehensible and acceptable to policy-makers in both sets of countries than those based on moralistic claims. A vague sense of concern for the 'starving millions', and an even vaguer sense of guilt about past or present inequitable economic relationships, have not so far proved a very powerful source of motivation for rich country governments in tackling complex problems of international economic relations. This is especially true in a world in which developing countries vary greatly in power, size and standards of living. The question now being posed, most topically by the Brandt Commission, is whether self-interest is a more effective inducement to industrialised countries to negotiate reforms of the international system in such a way as to help promote the development of poor countries. This question begs others. One is whether the kinds of reforms which entail a closer integration of the economies of developed and developing economies are in the real interests of developing countries. 'Radical', and particularly Marxist, critics would probably say not. Another question raised is whether there is in fact genuine self-interest in the 'north' in the development of the 'south'. This paper has tried to give at least a partial answer for the UK.

It must be stressed that the analysis is anything but complete. The largely descriptive, itemised, approach has ruled out an attempt to get at inter-connections which, at least on the economic side, are potentially measurable. This is partly a reflection of the very limited research which has been done in recent years on the effects on the UK economy of changes in relations with developing countries. The most useful studies of the effects of aid tying, and of the impact of 'low cost' competition, have been at a 'micro' level. It should now be both possible and useful to utilise models which do exist to trace, on an iterative basis, the direct and indirect effects on the UK economy of various likely changes - of demand stimulation in ldcs brought about by tied or untied aid, of the growth at different rates of competing ldc imports, and of the effects of increases or fluctuations in the prices of non-competing raw material imports. There are also deficiencies in coverage. One of the most important aspects of the UK's international economic relations with ldcs is the handling of financial recycling through UK-based banks and of the debts which ensue. The 'political economy' of this process, of the interactions between the City, the Bank of England and the Treasury, is extremely obscure, at least to this author, and there is little if any recent published work dealing with the subject in a critical way (or indeed more generally with the international interests of 'the City'). Other subjects are dealt with perfunctorily - such as the UK interest in international environmental questions - since the author knows little about them or how they are dealt with in policy terms. In short, a great deal more remains to be said on the subject of UK interests in development.

To the extent that it has been possible to pull together the various strands into an overall assessment of how the British government views its interests in developing countries, the conclusion is not too encouraging from a mutual-interests standpoint. Britain currently has a government which simply does not relate to the Keynesian framework of international 'effective demand' stimulation which underlies much of the Brandt analysis and which sees 'interests' primarily in terms of export opportunites. It is unlikely to be interested in measures which raise global expenditure, both because of their likely implications for inflation and because of pessimism, based on past trends and current awareness of UK price uncompetitiveness, about the benefits to UK exporters. Nor is the present government likely to be at all interested, given its ideological propensities, in proposals for inter-governmental regulation of commodity markets, or the transfer of technology, or restructuring, on other than a commerical basis, of contractual debt. Where a liberalisation of markets might help developing countries (lifting restrictions on imports of competing manufactures and agricultural goods and, above all, people) there are major political obstacles and some genuine if exaggerated frictional costs. The virtual ending of any British need for imported energy, the increasing self-sufficiency (albeit at great cost) of European and British agriculture, and the disengagement of British and other Western mining companies from developing countries have substantially weakened what were formerly strong sources of economic inter-dependence. Political interests have waned with the end of Empire, the demise of the Commonwealth, and the ending of all but nominal military involvement. What is known of public opinion also indicates some hostility and general indifference. The present government has signalled its attitude towards 'north-south' relations in general by representation at conferences which is low in level and negative in tone and by even sharper cuts in the aid budget than in public expenditure in general. Policies towards overseas students, refugees and immigrants also suggest that very low priority is accorded to cultivating the goodwill of most 'third world' countries. Although its tone was more conciliatory, the last Labour government also showed no evidence of being persuaded that British interests were likely to be enhanced by a positive approach to most of the items on the north-south agenda, even in areas such as commodity price stabilisation which had long been favourite issues for Labour politicians.

There is, however, evidence, which this survey has tried to bring together, that there are some substantial areas in which British interests in developing countries are of large and growing importance and may be given inadequate weight at a political level. After a long period of decline, the share of ldcs as a market for British exports is now increasing (to 29% in 1979). Invisible earnings also appear to be following the same trend, but this is more difficult to establish. The relatively more dynamic economies of the 'third world', especially of the 'newly industrialising countries' and the oil producers, are likely to keep the ldc share rising for some years, especially as the EEC and the US are entering a period of even greater economic difficulty. And while there is increasing gloom about the capacity of the British economy to adjust, there is still a strong argument to be made in Britain's national interest for adopting a positive rather than a restrictive approach to what will be a growing volume of competing exports from developing countries. While British interests in securing commodity supplies from developing countries are less pressing than they once were, or are in some other EEC countries and Japan, there does remain an interest in measures which can reduce imported inflationary pressures and which safeguard long-term supplies of some minerals for which there is no obvious substitute.

Private foreign investment in developing countries has been shown to be increasing relative to that in the rest of the world, again after a long period of decline in relative importance. Liberalisation of exchange controls should increase the absolute and possibly the relative significance of British private investment in ldcs. The successful negotiation of measures to increase the stability of conditions in which foreign risk investment takes place would, one imagines, be given high priority by the present government. Bank lending to ldcs has already reached a prodigious level, and while British banks appear to be slightly less exposed than those from the US, there is a strong interest in devising mechanisms which prevent default while preserving opportunities for expanding lending business - ie growth - in the borrowing countries. Even in the strategic field, events in Afghanistan have done something to rekindle British awareness of the existence of South Asia and, possibly, of a connection between the ability of governments to deal with growing Soviet influence and the success of their economies in meeting popular demands for material improvement in living standards as well as financing defence requirements.

It might be said that all of these aspects of inter-dependence are well known and understood and are best dealt with problem by problem and country by country. Reflecting this empirical approach, British relations with 'developing countries' have not been characterised by a strong perception of 'the south' as a whole, except for the precise and limited purpose of set-piece diplomatic encounters, mainly in the UN. Interests are perceived in national or regional terms and as specific sectors or problems. This attempt to deal with north-south issues case by case is partly a product of the way in which British governments operate, always with a strong preference for pragmatism rather than a broad philosophical approach. It may, for the most part, be a good way of conducting business on a day-to-day basis. It also corresponds to the reality that developing countries differ greatly in outlook (towards private investment, for example), and in their economic potential and political importance. The problem with the partial approach, however, is that it ignores interconnections. For example, the question of debt cannot be separated from trade issues since the ability of borrowers to service debt is, in large measure, a function of the growth of their foreign-exchange earnings, which is in turn, to some degree, a function of 'rich country' policies on market access. The problems of world textiles or food cannot adequately be considered in isolation from the products which serve as their inputs or are exchanged for them in trade. It was awareness of such interconnections which led to the establishment after World War II of a set of 'rules of the game', with supporting institutions, to govern the conduct of international trade, finance, and political interdependence between Western countries.

Underlying the establishment of such an order was an implicit assumption to the effect that international economic exchange (and other forms of cooperation) was not a zero-sum game but potentially enriching to all participants. Despite a good deal of equivocation, and the presence of some 'free riders' who wish to benefit from general rules while not observing them, industrial countries have broadly been able to preserve a framework of order which has prevented a lapse back into mutually destructive pre-war nationalism. No satisfactory agreed framework currently exists to govern relations between developed and developing countries. Where the mutual interests of rich and poor countries primarily lie is precisely in the need for an international order which recognises the emergence of 'third world' countries as important economic and political actors. Some of them have already demonstrated their ability to inflict considerable damage on Western economies. There are substantial areas of interaction which on present trends are also likely to be subject to increasing mayhem: trade in competing goods, food supplies, the treatment of foreign nationals, trade in nuclear technology, competition for scarce natural resources. One major reason why most developing country governments have been less than constructive on many of these issues is that they feel they have had little influence in determining the international arrangements which have been devised and hence have little stake in them (though, realistically, there may be very little that can be done to prevent increasingly anarchic international relations in some areas). Developing countries' own initiatives - such as the demand for a 'New International Economic Order' - have met a largely negative response. Their proposals, taken in isolation, are often technically dubious and, taken together, involve a degree of bureaucratic regulation which essentially capitalist economies are bound to oppose. What is much less forgivable is the inability of Western countries, including Britain, to put forward any alternative. Some intellectuals have put forward the concept of a 'liberal international economic order' - essentially, free trade and free factor movements - as representing a set of rules and values which is consistent with Western as well as 'third world' interests. Suffice it to say that the main resistance to such ideas currently comes from inside Western countries.

The case for regarding third world development as in Britain's interest does not rest primarily on specific economic arguments couched in terms of 'global efficiency'. Though there are several mutual economic interests, these are not sufficiently important or sufficiently compelling to generate the kind of commitment which might make Western governments, including Britain's, give north-south relations a higher priority than they do. Two major elements are, however, missing from the economic argument. One is some awareness of the political as well as the economic importance of having an international order or 'rules of the game' governing the numerous ways in which industrialised and developing country governments and nationals have to interact. If such an order is to emerge it would necessarily involve some sacrifice of short-term interests and some loss to sectional interests.

Second there are moral as well as economic and political considerations. Neither economic 'mutual interests' arguments nor the concern for a general ordering of international relations provide a totally convincing rationale for getting Western governments committed to solve the most serious problems of development, unless these are seen in a very long-term perspective. The 'interests' argument may provide a strong reason for Western countries to deal in a much more sensitive and positive way with the governments of Brazil, Mexico, Algeria, Nigeria, the ASEAN group and a few others. And it is a reflection of the lack of imagination of many decision-makers in Western countries that the case for treating these countries as of some importance has to be laboured at such inordinate length. But this effort tends to detract from the problems of the majority of human beings in developing countries, and a large majority of the poorest, who live in rural areas in a small number of populous Asian countries. It is not obviously a British national interest to assist in alleviating this distress. The absolute poor scarcely impinge on the governments of their own countries, let alone on the international order. If there is a case for the British government to be more involved in alleviating their poverty it is in the first instance a moral one, and it is best not to pretend otherwise.

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