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MR JEREMY THOMAS  
.....(GEOB DUS)  
.....(GEOG AUS)  
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SIR R ARMSTRONG }  
MR BUCKLEY } CABINET OFFICE  
MR B CARTLEDGE }

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PERM. SECRETARY  
SECOND PERM. SEC. O.F. }  
MR J B UNWIN } TREASURY  
MR P MOUNTFIELD }  
MR R G LAVELLE }  
MRS P C DIGGLE }  
OVERSEAS SECTION (7) }

MR LOEHNIS }  
MR M J NALFOUR } BANK OF ENGLAND  
MR GILCHRIST }

PS/MINISTER OF TRADE } DTI  
MR R WILLIAMS }

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RESTRICTED  
DE SKBY 252000Z  
FM UKDEL IMF/IBRD WASHINGTON 251628Z SEP 84  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 206 OF 25 SEPTEMBER

FOLLOWING TELEGRAM NOW SENT TO YOU FOR ACTION AT REQUEST OF ORIGINATOR WAS SENT TO UKMIS NEW YORK TELNO 3 OF 23 SEPTEMBER.

BEGINS:  
FM UKDEL IMF IBRD WASHINGTON 231941Z SEP 84  
TO IMMEDIATE UKMIS NEW YORK  
TELEGRAM NUMBER NUMBER 003 OF 23 SEPTEMBER

FOR PRIVATE SECRETARY TO SECRETARY OF STATE

FOLLOWING IS TEXT OF CHANCELLOR OF EXCHEQUER'S STATEMENT TO THE DEVELOPMENT COMMITTEE ON SEPTEMBER 23.

FOR YOUR INFORMATION, THE TEXT HAS NOT (REPEAT NOT) BEEN MADE AVAILABLE TO OTHER PARTICIPANTS OR TO THE PRESS

BEGINS

1. MANY MINISTERS HERE OR THEIR COLLEAGUES TOOK PART IN OUR DISCUSSION IN YESTERDAY'S INTERIM COMMITTEE MEETING ABOUT WORLDV ECONOMY, OUR COMMUNIQUE RECORDED THE GREATLY IMPROVED PERFORMANCE AND OTULOOK WE SEE THIS YEAR, COMPARED WITH A YEAR AGO.

2. WE FOCUS TODAY ON THE PROBLEMS OF DEVELOPING COUNTRIES, I WELCOME THE WORLD DEVELOPMENT REPORT WHICH THE BAK STAFF HAVE PRESENTED TO US. THE EVIDENCE AND ACTUAL BENEFITS OF WORLD RECOVERY ARE NOT YET AS CLEARLY SEEN BY MANY DEVELOPING COUNTRIES AS BY INDUSTRIAL COUNTRIES. THIS MAY BE PARTLY A MATTER OF NATURAL DELAYS AS THE RECOVERY GENERATED FIRST IN THE UNDIUSTRIAL COUNTRIES TAKES TIME



BE PARTLY A MATTER OF NATURAL DELAYS AS THE RECOVERY GENERATED FIRST IN THE INDUSTRIAL COUNTRIES TAKES TIME TO SPREAD. IT IS PARTLY ALSO A REFLECTION OF DEEP-SEATED PROBLEMS IN MANY DEVELOPING COUNTRIES, AND OF THE SMALLER AND LESS VIGOROUS ECONOMIC BASE ON WHICH THEY HAVE TO BUILD.

3. BUT THERE ARE SIGNS OF A BETTER CLIMATE. THE RAPID GROWTH OF WORLD TRADE - AN INCREASE OF AROUND 8 PER CENT THIS YEAR - HAS BEEN REFLECTED IN THE BALANCE OF PAYMENTS OF MANY DEVELOPING COUNTRIES. THEIR COLLECTIVE CURRENT ACCOUNT DEFICITS HAVE BEEN SHARPLY REDUCED. THEY HAVE BEEN PAINFUL CUTBACKS IN THEIR IMPORTS AND RATES OF GROWTH IN MANY CASES, BUT THERE ARE NOW PROSPECTS OF RESUMED GROWTH.

4. BEFORE TURNING TO THE IMMEDIATE ISSUES RAISED BY THE REPORT, IN PARTICULAR THE OPERATIONS OF THE WORLD BANK GROUP AND THE PROBLEMS OF AFRICA - LET ME SAY A LITTLE MORE ABOUT WHAT I HAVE REFERRED TO AS THE DEEP-SEATED PROBLEMS.

5. WE ARE FAMILIAR FROM MANY EARLIER MEETINGS AND COMMUNIQUE WITH QUESTIONS OF MORE OPEN MARKETS FOR TRADE, THE DEMANDS FOR, AND CONSTRAINTS ON, OFFICIAL AID AND HELP FROM MULTILATERAL INSTITUTIONS, AND THE NEED FOR PRIVATE INVESTMENT. INSIDE THE ECONOMIES OF DEVELOPING COUNTRIES THERE ARE COMPLEX PROBLEMS OF FINANCIAL AND ECONOMIC MANAGEMENT, OF THE PROPER ROLES OF PUBLIC AND PRIVATE SECTORS

IN UNDEVELOPED ECONOMIES, AND THE PURSUIT OF BALANCED DEVELOPMENT IN A COMPETITIVE WORLD.

6. AND DEVELOPING COUNTRIES HAVE TO TACKLE THESE PROBLEMS IN A WORLD ECONOMIC CLIMATE WHICH IS INEVITABLE DOMINATED BY THE PERFORMANCE OF MAJOR INDUSTRIAL COUNTRIES AND THE EFFECTS OF THE POLICIES OF THOSE COUNTRIES.

7. THERE IS PLAINLY NEED FOR A DIALOGUE ADDRESSED TO THESE DEEP-SEATED PROBLEMS - A DIALOGUE IN WHICH DEVELOPING AND DEVELOPED COUNTRIES CAN TOGETHER EXAMINE MEDIUM-TERM PROSPECTS AND NEEDS IN A REALISTIC SPIRIT.

8. THIS WAS THE ESSENCE OF THE PROPOSAL OF THE LONDON SUMMIT THIS YEAR THAT FINANCE MINISTERS SHOULD CONSIDER THE SCOPE FOR INTENSIFIED DISCUSSION IN THIS DEVELOPMENT COMMITTEE OF INTERNATIONAL FINANCIAL ISSUES OF PARTICULAR CONCERN TO DEVELOPING COUNTRIES.

9. I SPENT TWO DAYS IN TORONTO LAST WEEK AT MEETINGS WITH MY FELLOW FINANCE MINISTERS OF THE COMMONWEALTH, WHICH INCLUDES MANY OF THE POOREST DEVELOPING COUNTRIES IN AFRICA, ASIA AND THE CARIBBEAN.

10. THOSE MEETINGS ALSO GAVE STRONG SUPPORT FOR WIDE-RANGING DISCUSSIONS BETWEEN DEVELOPED AND DEVELOPING COUNTRIES FOR WHICH THE DEVELOPMENT COMMITTEE COULD PROVIDE A FORUM.

11. YESTERDAY, RECOGNISING THAT SOME OF THE INTERESTS



11. YESTERDAY, RECOGNISING THAT SOME OF THE INTERESTS INVOLVED HERE ARE APPROPRIATE TO THE INTERIM COMMITTEE, WE ENVISAGED PARALLEL MEETINGS OF THE INTERIM COMMITTEE AND THE DEVELOPMENT COMMITTEE AND THE DECISION WAS TAKEN TO HOLD AN INTERIM COMMITTEE MEETING FOR THIS PURPOSE NEXT APRIL. I HOPE WE CAN DECIDE TODAY TO CARRY THE IDEA FORWARD WITH AN ARRANGEMENT FOR THIS COMMITTEE TO MEET AROUND THIS TIME TO CONCENTRATE ON RELATED AREAS OF THE KIND I HAVE INDICATED.

12. LET ME SKETCH ONE OR TWO THOUGHTS I WOULD WANT TO FEED IN TO THESE DISCUSSIONS.

13. DEVELOPING COUNTRIES, INCLUDING THE MORE ADVANCED AMONG THEM, WHETHER DEBTORS OR NOT, WILL BE LOOKING FOR INFLOWS OF CAPITAL FOR A LONG TIME TO COME. THEY CANNOT REALISTICALLY - NOR SHOULD THEY - RELY ON OFFICIAL AID OR LENDING FROM INTERNATIONAL INSTITUTIONS TO SATISFY ALL THEIR NEEDS.

14. JUST AS IN DEVELOPED COUNTRIES, AND IN SOME OF THE STRIKINGLY SUCCESSFUL DEVELOPING COUNTRIES OF ASIA, THEY NEED TO HELP FINANCE PRODUCTIVE INVESTMENT BY TAPPING PRIVATE CAPITAL IN ALL ITS FORMS. AND WHAT IS NEEDED IS LONG-TERM EQUITY INVESTMENT WHICH WILL AVOID THE ACUTE DEBT-SERVING PROBLEMS OF EXCESSIVE SHORT-TERM BANK FINANCE. WE NEED TO EXPLORE PRACTICAL WAYS AND MEANS.

15. ABOVE ALL, INVESTMENT REQUIRES CONFIDENCE. ONE OF THE TRAGEDIES IN MANY DEBTOR COUNTRIES - AND OTHER DEVELOPING COUNTRIES TOO - IS THAT THEY NOT ONLY HAVE DIFFICULTY IN ATTRACTING FOREIGN INVESTORS, BUT THEY HAVE LOST A HUGE VOLUME OF POTENTIAL INVESTMENT BY THE FLIGHT OF CAPITAL FROM THEIR OWN RESIDENTS.

16. I THEREFORE AGREE ENTIRELY WITH THE IMPORTANCE THE WORLD DEVELOPMENT REPORT ATTACHES TO THE NEED FOR DEBTOR COUNTRIES TO ADOPT POLICIES THAT WILL RESTORE THE CONFIDENCE NOT MERELY OF THE OUTSIDE WORLD BUT OF THEIR OWN PEOPLE. IN THIS CONTEXT IT IS IMPORTANT TO RECOGNISE THAT FOREIGN EXCHANGE CONTROLS ARE NOT - AND CANNOT BE - A SUBSTITUTE FOR RESTORING THAT CONFIDENCE. TO IMAGINE OTHERWISE IS AN ILLUSION.

#### WORLD BANK ISSUES

17. I TURN NOW TO THE IBRD AND ITS ASSOCIATED INSTITUTIONS. I WAS VERY PLEASED TO HAVE BEEN ABLE TO SUPPORT THE SELECTIVE CAPITAL INCREASE OF DLRS 8.4 BILLION, ALTHOUGH THIS MEANT ACCEPTING A REDUCTION IN THE UK'S SHARE AND RANKING, THUS ENABLING JAPAN TO TAKE SECOND PLACE AFTER THE US, CONSISTENT WITH HER ECONOMIC STRENGTH AND WORLDWIDE RESPONSIBILITIES.

18. THE LONDON SUMMIT ATTACHED QUOTE PARTICULAR IMPORTANCE TO ...STRENGTHENING THE ROLE OF IBRD IN FOSTERING DEVELOPMENT OVER THE MEDIUM AND LONG TERM UNQUOTE. MY GOVERNMENT SUPPORTS THIS WHOLEHEARTEDLY. I AM GLAD TO



DEVELOPMENT OVER THE MEDIUM AND LONG TERM UNQUOTE. MY GOVERNMENT SUPPORTS THIS WHOLEHEARTEDLY. I AM GLAD TO KNOW THAT THE BANK IS STUDYING ITS FUTURE ROLE AND WILL BE BRINGING PROPOSALS BEFORE US NEXT YEAR. I ASSUME THAT THESE WILL CINLUDE WAYS OF STRENGTHENING ITS CAPITAL BASE. THE UK IS READY TO JOIN IN CONSIDERATION OF A FUTRE GENERAL CAPITAL INCREASE, ALTHOUGH THERE WILL, OF COURSE, BE MANY QUESTIONS TO RESOLVE, SUCH AS THE ABSOLUTE SIZE OF THE INCREASE, THE PROPORTION THAT SHOULD BE PAID - IN AND SO ON.

19. THERE WILL BE OTHER IMPORTANT ISSUES TO CONSIDER ALSO. THESE INCLUDE THEBALANCE BETWEEN TRADITIONAL PROJECT LENDING, WHICH REPRESENTS THE CENTRAL PART OF THE BANK'S OPERATIONS, AND THE VARIETY OF MORE FLEXIBLE FORMS OF ASSISTANCE THAT HAVE DEVELOPED IN RECENT YEARS. IT IS OF CENTRAL IMPORTANCE, AND IN THE INTERESTS OF BORROWING MEMBERS, THAT THE BANK'S LENDING SHOULD SUPPORT SOUND POLICIES FOR ADJUSTMENT AND DEVELOPMENT.

20. BESIDES BEING A PROVIDER OF FUNDS, THE BANK IS A SETTER OF STANDARDS, AN INNOVATOR AN A COORDINATOR. I THEREFORE PARTICULARLY STRONGLY SUPPORT ITS IDEAS FOR INCREASED CO-FINANCING. A ALSO WARMLY WELCOME THE INTEREST THE BANK IS TAKING IN IDEAS FOR INVESTMENT INSURANCE. THE WHOLE QUESTION OF COOPERATION BETWEEN THE BANK AND THE FUNDS NEEDS TO BE EXAMINED AFRESH. COLLABORATION OF THIS KIND WILL HELP TO REASSURE THE PRIVATE INVESTER ABOUT THE LONG-TERM HELATH OF DEVELOPING ECONOMIES, AND WILL ENCOURAGE A GREATER FLOW OF PRIVATE FUNDS.

21. HERE I WELCOME THE REPORT FROM THE INTERNATIONAL FINANCE CORPORATION. THE IFC IS A CATALYST IN THE PROCESS OF MOBILISING PRIVATE INVESTMENT. IT HAS A DISTINGUISHED RECORD IN PROMOTING DEVELOPMENT IN A WIDE RANGE OF COUNTRIES. IT IS NOW WELL-EQUIPPED TO DEVELOP ITS ROLE SIGNIFICANTLY. I HOPE TO SEE PROGRESS IN ITS ABILITY TO ATTRACT GREATER FLOWS, AND NEW KINS OF FLOWS, OF PRIVATE INVESTMENT.

22. I WISH WE COULD HAVE RECORDED EQUAL SUCCESS IN PROMOTING THE ACTIVITIES OF IDA. THE UK HAS BEEN A LEADING SUPPORTER OF IDA AND WE WOULD HAVE BEEN GLAD TO JOIN IN ON IDA 7 OF DLRS 12 BILLION, OR IN THE SUGGESTED SUPPLEMENTARY FUND. WE ATTACH IMPORTANCE TO THE REVIEW OF THE IDA 7 REPLENISHMENT WHICH IT IS AGREED SHOULD BE CONDUCTED NEXT YEAR.

#### AFRICA

23. I TURN NOW TO THE ACTUE PROBLEMS OF SUB-SAHARAN AFRICA ON WHICH IT IS RIGHT THAT WE SHOULD FOCUS OUR ATTENTION. HISTORY HAS GIVEN THE UK STRONG TIES WITH MANY OF THESE COUNTRIES AND I REITERATE OUR COMMITMENT TO HELPING TO SOLVE THE PROBLEMS OF THIS AGONISINGLY HARD-PRESSED REGION OF THE WORLD. THIS



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IS REFLECTED IN THE SUBSTANTIAL AMOUNT OF OUR BILATERAL  
AID WHICH GOES TO SUB-SAHARAN COUNTRIES- AMOUNTING  
LAST YEAR TO SOME POUNDS STERLING 236 MILLION.

24. I WELCOME THE LATEST REPORT. IT IS A THOROUGH AND  
COMPREHENSIVE STUDY. IT IS SIGNIFICANT THAT THE  
ANALYSIS OF SUB-SAHARAN PROBLEMS IS NOW GENERALLY ACCEPTED.  
IT IS RIGHT TO EMPHASISE THE PROPER OPERATION,  
REHABILITATION, MAINTENANCE AND FULLER USE OF EXISTING  
ASSETS. MANY AFRICAN GOVERNMENTS ARE NOW ACTING TO  
REFORM ECONOMIC POLICIES. AND I BELIEVE A GROWING  
NUMBER APPRECIATE THE BENEFITS TO BE GAINED FROM  
ACCEPTING AND ENCOURAGING INWARD PRIVATE INVESTMENT.  
BUT THERE IS A NEED FOR SUSTAINED EFFORT ON THE PART OF  
GOVERNMENTS. MANY STILL HAVE TO ADDRESS FUNDAMENTAL  
ISSUES.

25. THE REPORT'S CRITICISM OF SOME OF THE PAST  
PRACTICES OF DONORS IS JUSTIFIED. MUCH OF OUR AID IS  
NOW IN A FORM DESIGNED TO IMPROVE THE YIELD OF  
PAST INVESTMENTS AND WE ARE INCREASINGLY ALLOCATING  
AID IN SUPPORT OF STRUCTURAL ADJUSTMENT PROGRAMMES  
AGREED WITH THE FUND OR BANK. I BELIEVE THIS IS A  
PARTICULARLY USEFUL FORM OF AID, AND I URGE FELLOW  
DONORS TO EXAMINE AGAIN THEIR RESTRICTIONS ON  
NON-PROJECT AID AND AID FOR RECURRENT COSTS.

26. THE REPORT IS RIGHT TO STRESS THE BENEFITS  
OF BETTER COORDINATION BETWEEN DONORS AND RECIPIENT  
GOVERNMENTS. WE AGREE THAT THE WORLD BANK SHOULD BE  
PREPARED TO PLAY A LARGER ROLE HERE, AS PROPOSED IN  
THE REPORT. BUT IT REQUIRES THE FULL COOPERATION  
OF AFRICAN GOVERNMENTS AND THE SUPPORT OF ALL DONORS.  
REAL GAINS COULD BE ACHIEVED THROUGH CONCERTED  
EFFORTS OF THIS KIND, SUPPORTING SOUND DEVELOPMENT  
POLICIES.

27. MR CHAIRMAN IT IS NOW TWO YEARS SINCE YOU TOOK  
OVER THE CHAIR OF THIS COMMITTEE. WE HAVE ALL  
ADMIRED THE FIRMNESS AND CONSISTENCY OF PURPOSE WITH  
WHICH YOU HAVE GUIDED THE ECONOMY OF PAKISTAN: AND  
YOU HAVE BROUGHT THE SAME QUALITIES OF FIRMNESS AND  
CONSISTENCY, MIXED WITH COURTESY AND GOOD HUMOUR, TO  
THE TASKS OF GUIDING THE PROCEEDINGS OF THIS COMMITTEE.

ENDS

FCO PASS DESKBY 260800Z MRS DIGGLE TREASURY.

WICKS