



A DIGEST OF NEWS AND VIEWS ON BRITAIN'S ECONOMY
AND OUR ROLE IN OVERSEAS TRADE AND PAYMENTS

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A PROGRAMME TO STOP INFLATION

The realisation of the threat to Britain's economy and the failure of politicians of all parties to put forward plans to bring about national recovery has caused a spate of comment in the press and in political circles on the need to establish a national Government. The needs of the present situation, however, are for national policies to deal with the basic cause of our malaise, growing inflation. To establish a national Government which went on making the same mistakes as successive Governments have done since the end of the war would only worsen an already extremely dangerous situation.

In the March/April issue of *BRITAIN & OVERSEAS* we put forward seven priorities for the Government as essential steps towards national recovery. In a powerfully argued leading article published in *'THE TIMES'* on 6th July some of these priorities were recognised and it is encouraging to find that this influential organ of opinion has now given a lead in the direction which can slow down and eventually halt inflation.

We claimed that *"inflation arises primarily from an expansion of the money supply and that monetary policy should be recognised as the key to preventing further inflation. The amount of new money allowed to come into circulation should be limited to the increase in the Gross National Product."*

Inflation — A Disease of Money

'The TIMES' stated the case thus: "For all its social causes and consequences, inflation is primarily a disease of money. At the centre of policy must therefore be control of the supply of money. This itself should be applied over time. First, there should be an absolute commitment to balancing the Budget by the third year of the programme. There should also be an absolute commitment to restricting the rate of increase in the money supply to the level of the increase in national productivity by the end of the third year of the programme. That means that the rate of increase in M3 would have to be brought and kept below 5 per cent. This gradual movement to monetary stability would give industry and individuals time and warning to adjust their affairs. One of the evils of inflation is that it becomes impossible to plan ahead."

Referring to the need to stimulate genuine savings we said *"savings should be encouraged by providing a new inflation proof bond, carrying a Government guarantee against continued inflation, but with a relatively low rate of interest."*

'THE TIMES' said: "In order to strengthen their control of money supply the Government should reorganise their own borrowing. At present British Government securities offer a negative true rate of interest; that is to say they yield less than the current rate of inflation; one actually has to pay for the privilege of lending money to the British Government. Either an indexed loan — automatically compensating for changes in the cost of living — or a gold loan — providing an option to receive interest and capital at the sterling value of gold — could overcome this absurdity."

Reducing Government Expenditure

Again, we referred to the prime need to reduce Government expenditure: *"Government expenditure (both central and local) on the current and capital account should be reduced and not allowed to exceed an agreed percentage (say 35%) of the GNP. Public sector expenditure should then only be allowed to increase in relation to the growth of the economy."*

On this point *'THE TIMES'* was equally specific. They said: "One of the causes of the economic weakness of Britain is that the national overhead has been growing much faster than the national productive capacity. In industry this fatty degeneration of overheads does take place but the pressures for profit help to reduce it. If inflation is to be stopped there will need to be a long term plan for reductions in government expenditure, not merely sudden capricious cuts. Even more important is a long term plan to reduce the manpower requirements of national and local government. The reorganisation of local government has resulted in a wasteful expansion of manpower."

Restore Faith in Money

'THE TIMES' concludes the article with these words: "Any party, or any coalition, which thinks that you can end inflation without limiting the supply of money, that you can have stabilization without a stabilization programme, is simply wasting time and deceiving the public. It is still possible to work for a controlled and phased return to price stability, a programme of endurance rather than catastrophe. Yet even that possibility could soon be gone. We have to restore to the public their faith in the value of money, because that is the only way our economic system can be made to work. Indeed, as we are increasingly finding, men can only be persuaded to work with a real will, if they are paid in real money."

We can only trust that these wise words will be heeded by politicians of all parties and that action will be taken to remedy the situation before it is too late.

ECONOMISTS ADVISE MR. WILSON ON INFLATION

Seven professors of economics and four others, including Mr. Richard Body, M.P., have warned the Prime Minister of worse inflation ahead unless there is an annual reduction in the rate of increase in money supply. They suggest that inflation should be contained "over a period of years" by a gradual return to a balanced budget and by yearly reductions in the rate of increase in the money supply. This gradual approach, they suggest, will reduce the risk of unemployment. They make it clear that the aim is disinflation, not deflation.

The blame for the widespread scourge of inflation is firmly placed "in the monetary policy pursued by your predecessor". The signatories refute the idea that inflation has been caused by high world prices or by wage demands by powerful trade unions. Wage and salary earners have nearly 3% less of the

national income than in 1948, a fact first brought out by the National Recovery Programme in 1968.

"Dear Prime Minister" published by Economic Radicals, 26 West Square, S.E.11.

50p including postage.

MALAYSIA — OPPORTUNITY FOR INVESTMENT

by R. Wright, Malaysian Trade Commission

In 1973 Malaysia experienced a record 18% growth in manufacturing output although in value this still represents only 16% of Gross Domestic Product. The traditional primary export earners: rubber, palm oil, tin and hardwoods, also had an excellent year due to high world commodity prices.

In Rostovian terms, Malaysia is experiencing what has been described as a "take-off" into sustained economic growth and so will join that exclusive club of high growth economics which includes Brazil, Mexico and its neighbour Singapore. As in all such economics there has been a massive construction boom and a considerable inflow of foreign investment capital particularly from the U.S., Japan and Singapore. Existing manufacturers, many of them British, are diversifying and expanding their activities out of primary commodities into processing and so adding considerable value to Malaysian exports. Unlike many Latin American economies, inflation has been contained and was an almost respectable 10% in 1973!

Traditionally, as the major world producer of a number of basic commodities, Malaysia with its small population of 11 million (East and West) has achieved a considerably higher standard of living than its neighbours, excluding of course the city states of Singapore and Hong Kong. Combine this with its geographical position as the 'crossroads of Asia', the adaptability and literacy of its labour force and a strong democratic government and you have a magnet for foreign investors seeking a manufacturing base in the S.E. Asia region. Such has been the recent growth in manufacturing that an annual Trade Fair is now held in Kuala Lumpur in late August. Included in the Fair is an Export Pavilion promoting everything from electrical appliances to shoes and from textiles to furniture.

Incentives

For the new investor a whole range of incentives is available both fiscal and non-fiscal. Direct investment and the acquisition of existing businesses is channelled through a government agency known as 'The Federal Industrial Development Authority' (FIDA). All new direct investment must be approved by FIDA and it is they who are responsible for granting the various types of fiscal relief. Incidentally no distinction is made here between foreign and domestic investors. A list of 'priority' products has been established to encourage the manufacture of new products in Malaysia in line with the policy of import substitution. Investors who choose a 'priority' product are given a 'pioneer' status and fiscal incentives are granted through tax relief on profits according to the size of the capital investment or the amount of labour

employed. Location in a 'Development Area', the use of local raw materials and production for export increases the period of tax relief.

Investors in agro-based industries such as coffee processing and dairy products are particularly welcome. Certain crops if grown by the investor qualify for plantation allowances. For those companies not granted pioneer status, an individual project is examined and assessed on its merits to see that it fits in with the overall policy of the Government, and if approval is given other forms of fiscal relief are available including 'Investment Tax Credit' and 'Accelerated Depreciation Allowance'. As the titles suggest tax relief is given on the amount of capital invested and the investor can also qualify for the other incentives available to companies with pioneer status. These types of relief are ideal in reducing the gestation period between the commencement of production and the earning of profits. In certain circumstances the Government is prepared to grant temporary tariff protection to encourage local manufacture.

Incidentally all profits earned during the period of fiscal relief and after, can be freely remitted to Britain free of all U.K. tax under a 'Double Taxation Agreement' signed last year.

Malaysian Participation

To encourage Malaysian participation in industry, particularly amongst the Malays or 'Bumiputra' as they are known, the Government requires that all foreign investors offer some of their equity to local investors. The amount of equity to be offered varies in proportion to the percentage of production sold on the domestic market. For example, if 100% of production was sold domestically 51% of the equity must be offered to local investors. This percentage decreases as the proportion for export increases, so that production 100% for export would require only 20% local participation. However it must be stated that the percentage of local equity is subject to negotiation between FIDA and the investor, and it is not intended that managerial control should be exercised by local participants. There are many local merchant banks and development corporations prepared to take equity either on a temporary or permanent basis. The most important is the 'Malaysian Industrial Development Finance Berhad' (M.I.D.F.B.), a consortium of private bankers with Government backing. M.I.D.F.B. will participate in joint ventures, underwrite shares, provide long and medium term capital loans and through its subsidiary 'Malaysian Industrial Estates Berhad' builds standard factory units or industrial estates throughout Peninsula Malaysia. Such equity participation could be a positive incentive to many small and medium sized British companies keen to export technology and know-how but short of capital and/or restricted by Government regulations in the U.K. F.I.D.A. also maintains a register of potential joint venture partners in Malaysia who have capital but lack technology and visa versa. The Malaysian Government positively welcomes partnerships of this type between British and Malaysian companies.

Development Corporations

Malaysia is divided into 13 states including Sabah and Sarawak on the island of Borneo and each of these states has a Development Corporation responsible for establishing industrial estates with all main services. They also participate in industrial and agricultural joint venture projects. Rents on the industrial estates vary from a little as 5p per square foot in the less developed states to 40p per square foot in the highly developed states of Selangor and Johore. In addition an annual ground rent is charged per acre and leases are normally for 99 years. Many of the estates are located at or near ports and have Free Trade Zones designed primarily for those manufacturers producing for export who wish to avoid unnecessary red tape and customs formalities. Incidentally Malaysia's chief port of entry, Port Kelang, is now fully containerised and OCL and Ben Line operate regular services out of Southampton.

Portfolio investors are also welcome particularly those who bring technology and provide new export markets. To protect local investors the Government has recently established a 'Foreign Investment Committee' under the auspices of the Prime Minister's Office to vet and approve all major share acquisitions, mergers and take-over bids by foreign companies. The onus to establish the merits of a particular acquisition will rest upon the foreign company. The Government for its part has established certain guide lines central to which is the desire to maintain and increase 'Bumiputra' participation in an economy so dominated by foreign enterprise.

British Investment Particularly Welcomed

With regard to direct investment all applications are made through FIDA who are also in a position to conduct pre-investment market surveys for foreign companies. In London detailed information on investment and trade is available from the Malaysian Trade Commission in Trafalgar Square and in August FIDA is to establish an investment centre in the same offices. The Malaysian Government is particularly anxious to maintain the flow of British investment which in the past has played such an important part in Malaysian development.

BEEF: AUSTRALIA PROTESTS TO EEC

Australia has protested to the European Economic Community over restrictions on beef imports by member countries.

The protest was conveyed to the Common Market headquarters in Brussels by an Australian delegation.

The Minister for Overseas Trade, Dr. Cairns, said in Canberra that the recent Common Market measures were severely restricting access for foreign beef to the markets of Common Market countries. They particularly jeopardised Australia's long-standing trade in frozen beef with the British market.

EUROPE AND THE COMMONWEALTH

Extract from a speech by Mr. James Callaghan, Secretary of State for Foreign and Commonwealth Affairs, in the House of Commons on 11th June 1974

I turn to some further general reflections on the issue, and the first of them relates to the Commonwealth. When we debated these issues in 1970 and 1971, we said that the result of entry into the Community would be to weaken the links with the Commonwealth. That has happened. There is no doubt that, as a result of our entry, the Commonwealth has succeeded in diversifying its markets. It has found different markets, and it is for that reason, among others, that New Zealand for example has not been able to deliver her full quotas to this country —

Mr. Edward Milne (Blyth): Before my right hon. Friend leaves the Commonwealth —

Mr. Callaghan: I have not yet finished with the Commonwealth. I will strike a bargain with the hon. Gentleman. If he is willing to wait until I have completed what I have to say about the Commonwealth and I have not dealt with the matter that he wishes to raise, I shall gladly give way to him then.

I have endeavoured to consult all the members of the Commonwealth on this. We have sent out telegrams and messages, and we have their reactions. A number of members of the Commonwealth feel that the spread of diversification has gone so far that not much can be pulled back. Others have ties of blood, sentiment and history with us and would like to see a pulling back if it could be secured. Others, frankly, are more concerned to see their relations with the Community broadened than to keep a market with Britain.

All these factors have moved on since we discussed these issues in 1970. I regret that the Commonwealth has diversified in this way — (Hon. Members: "Why?") — but we forecast that it would.

I am asked why I regret the diversification. I regret it because I believe that the Commonwealth is a force for good and that its ties should be maintained as closely as possible. Since being at the Foreign Office, I have tried and I shall continue to try to strengthen the ties with Commonwealth countries.

Mr. Milne: My right hon. Friend has made precisely the point about which I wanted to ask him. If it is possible to renegotiate with the Community in the way that he has outlined, despite the changes in Commonwealth trading arrangements, it is equally possible surely to renegotiate these matters with the Commonwealth. The purpose of renegotiation is on that basis.

Mr. Callaghan: Yes, it is possible. We are discussing with the Commonwealth countries, and we will continue to do so, whether they are willing to re-enter into long-term arrangements with us or with the Community as a whole, and at what level of prices they will be willing to do so. That is an essential part of our discussions.

OUR 300m. MARKET — THE BIG DISCOVERY

By Gordon Tether

One cannot exactly fault the National Institute of Economic and Social Research for making an effort in its latest review to exonerate entry into the EEC from blame for the subsequent rapid deterioration in Britain's external payments fortunes. What one can say about this exercise and much of the publicity it has generated is that they miss the main point of the argument that has developed round the implications of our experiences during the first 18 months of membership.

For participation in the much talked of "Market of 300m." was not supposed to do us any harm. It was supposed to do us so much good that a cost-benefit analysis would be pretty certain to show that it had been worth incurring such disadvantages as having to subsidise Continental agriculture on the grand scale.

The fact that it has signally failed to do this is what is really important. And its significance has recently been heavily underlined, as it happens, by the Treasury projections of British growth which the Chancellor of the Exchequer unveiled in Brussels.

One of the main claims made by pre-entry pro-Market propaganda, it will be remembered, was that the congenial environment provided by our participation in the enlarged Community would operate as such a powerful stimulus to growth that we should be able to count, in due time, on emulating the impressive performance of the original "Six."

The Schedule

Now, however, we learn that we are destined to go on lagging so far behind the rest that our share of the Community's gross national product will have dwindled to 16½ per cent by 1977 and to a mere 14 per cent by 1980.

Efforts are, of course, being made to deflect attention from the discovery that the prospectus painted an unduly glamorous picture of life in the EEC with the argument that it is only because we delayed going in for so long that we are now condemned to falling further and further behind. It is also being contended that the fact that we are scheduled to experience much slower growth than the rest inside the EEC only means that we would be faring even worse outside it.

In reality, the alibi for pro-Market propaganda will not stand up to the light test. For the poor British record was one of the facts of life that obviously had to be taken into account in making forecasts of what involvement in the Community was likely to mean. And the proposition that our growth outlook would look even less promising outside the EEC is by no means as self-evident as the "Britain must stay in school" would have everyone believe.

To begin with, if Britain's comparative growth performance inside the "Market of 300m." is destined to be as unimpressive as the new estimates

suggest, whole cost-benefit issue appears in a very different light. After all, if we are going to get so little out of it in the economic advancement sense, it is necessary to start asking whether it would be appropriate to accept any additional burdens at all in the food costs and budgetary fields — not just whether we should try to get them reduced.

Sterile Trade

We have to ask ourselves, too, whether it is right to allow a country that is seemingly destined to become more and more the Cinderella of the EEC piece to get increasingly caught up in integration commitments. For they are certain to make it difficult for it to protect itself against the tendency for competition from its wealthier and more powerful neighbours to turn it into a depressed area.

And that brings us to the really big question raised by the discovery that membership of the EEC isn't going to confer the advertised economic benefits. Which is whether—tradewise—we would not be better off outside anything beyond a European free trade area. It is certainly arguable that we would be much better placed to develop the most beneficial forms of international trade if we were not so oriented to Europe — remembering that much of the traffic behind our massive EEC deficit is of the sterile "exchange of washing" variety.

The Commonwealth Industries Association is, indeed, to be commended for launching a series of studies aimed at throwing light on this crucial issue. The remarkable thing is that we have to rely on non-official bodies to search for these vital truths.

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QUESTIONS IN PARLIAMENT

European Economic Community

Mr. Marten asked the Secretary of State for Trade if he will make a statement about British trade with the EEC.

Mr. Shore: In January-April 1974, on a seasonally adjusted basis, exports to the other members of the EEC were £1,681 million fob and imports from them £2,310 million cif.

Mr. Marten: Is there any reason to expect that if we had a free trade area instead of the Common Market there would be much difference in our trade with Common Market countries? Is the Minister aware of the campaign that is being built up by the European Movement and its supporters in various places that for this country to withdraw from the Common Market would be disastrous to us? Is he further aware that the European Movement in Norway, and its supporters, said precisely the same and were proved wrong? Will the Government take action to counter this totally misleading propaganda by the European Movement and its many supporters.

Mr. Shore: The hon. Gentleman tempts me, and I shall yield to temptation. I deeply deplore the propaganda efforts that are being made to resurrect this European dogma. The people who embarked upon that dogma in the past did this country no service. I very much hope that in the period that is now beginning British industry will put far more effort into winning markets in Europe, whether in a free trade area or in the Common Market, than in trying to persuade the British people that it is in their interests to become part of a European union.

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European Economic Community

Mr. Marten asked the Secretary of State for Trade what percentage of British exports was taken by the other eight countries which now form the Common Market in each of the years between 1966 and 1974.

Mr. Deakins: Following is the information:

| | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 |
|--------------------------------------|-----------------|------|------|------|------|------|------|
| | <i>Per cent</i> | | | | | | |
| West Germany | 5.3 | 5.7 | 5.7 | 6.2 | 5.8 | 6.0 | 6.3 |
| France | 4.2 | 3.9 | 4.3 | 4.2 | 4.3 | 5.2 | 5.4 |
| Netherlands | 3.9 | 4.0 | 4.1 | 4.7 | 4.5 | 4.6 | 4.8 |
| Belgium | 3.5 | 3.7 | 3.9 | 3.6 | 3.6 | 4.0 | 4.9 |
| Luxembourg | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Italy | 3.0 | 2.8 | 2.9 | 3.0 | 2.7 | 2.9 | 3.1 |
| Irish Republic | 3.8 | 4.3 | 4.6 | 4.7 | 5.5 | 4.8 | 5.0 |
| Denmark, Faroe Islands and Greenland | 2.8 | 2.6 | 2.7 | 2.7 | 2.5 | 2.5 | 2.7 |
| Total | 26.6 | 27.0 | 28.1 | 29.2 | 29.0 | 30.2 | 32.4 |

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£ Sterling (Value)

Mr. Carter asked the Chancellor of the Exchequer what is the value of the £ sterling, to the latest date, compared to the French franc, Italian lira, deutschemark and United States dollar; and how this compares to the value on 28th February 1974.

The Paymaster-General (Mr. Edmund Dell): With permission, I will circulate the figures in the Official Report.

Following is the information:

| | <i>London middle market closing rate on</i> | | |
|-------------------------|---|----------------------|-----------------------|
| | <i>28th February 1974</i> | <i>4th June 1974</i> | <i>11th June 1974</i> |
| <i>Currency (£1 =)</i> | | | |
| French franc | 11.146 | 11.698 | 11.78 |
| Italian lira | 1,492.5 | 1,543.7 | 1,562.7 |
| Deutschemark | 6.159 | 6.034 | 6.011 |
| U.S. dollar | 2.3050 | 2.4003 | 2.3950 |

Money Supply and £ Sterling (Value)

Mr. David Price asked the Chancellor of the Exchequer if he will give the figures for the annual increase in money supply for each of the last 10 years, using both the M1 and M3 measures of money supply, respectively; and if he will also give the appropriate annual figure for the depreciation in the value of the £.

Mr. Dell: The information requested is as follows:

| | <i>Percentage Changes</i> | <i>Internal Purchasing Power of the Pound* *</i> |
|------|---------------------------|--|
| | <i>M1*</i> | <i>M3*</i> |
| 1964 | +3.7 | +5.7 |
| 1965 | +4.0 | +7.7 |
| 1966 | +0.0 | +3.7 |
| 1967 | +8.6 | +9.9 |
| 1968 | +4.1 | +7.7 |
| 1969 | +0.3 | +3.1 |
| 1970 | +9.4 | +9.6 |
| 1971 | +10.9 | +13.0 |
| 1972 | +13.7 | +25.8 |
| 1973 | +5.2 | +27.5 |

* Percentage change between end of previous year and end of year shown.

** Percentage change between mid-December of previous year and mid-December of the year shown (based on changes in the General Index of Retail Prices).

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EUROPEANISTS START DRIVE TO KEEP BRITAIN IN COMMUNITY

One of the biggest propaganda campaigns in contemporary politics, designed to keep Britain in the European Community, will be launched this week. Five million leaflets are to be distributed, at a cost of £50,000. The entire campaign is expected to cost more than £2m.

The battle lines over Britain's membership of the EEC are being drawn, but already the leaflet is causing dissent among the publishers, the European Movement. Some believe it is not entirely honest and could damage the credibility of the organization.

The title of the pamphlet is *Out of Europe . . . Out of Work*. It was devised by Mr. Ernest Wistrich, director of the European Movement, and Mr. Phillip Zec, a former *Daily Mirror* cartoonist.

Mr. Wistrich admitted that the slogan had been criticized in the movement but said they wanted to catch the attention of the public.

from *The Times* July 8, 1974.

RHODESIA — THE YEARS AHEAD

(A personal view specially contributed by Group Captain E. T. Nelson, D.F.C., A.F.C., R.A.F.(Rtd.), who is visiting this country from Rhodesia.)

There were many who predicted the downfall of Mr. Ian Smith's Government after the imposition of Sanctions. They were proved wrong, as they will probably also be proved wrong when they say the country is on the edge of disaster and revolution. Whether one supports the Rhodesian Front Government or not, it cannot but be agreed that the Minister of Finance has shown himself an economic wizard. Perhaps Britain could benefit from such a Chancellor of the Exchequer. The Rhodesian dollar is even stronger than the South African rand, and to send a £ (one pound) to Britain only costs a Rhodesian 75p instead of the old rate of 100p.

Although foreign exchange is in short supply, the sale of many primary products such as chrome, nickel, beef, cotton, sugar and so forth ensures a trading surplus year after year. A different story to Britain's annual deficits.

What of the Future?

But what of the political future? It is perhaps in this area that the Government are failing. A settlement with Britain seems to be vital, if, peace and prosperity are to be achieved. An election is due to take place shortly and this will test whether the European voters still wish to leave their future in the present Government's hands. The African voters, on their separate roles for African candidates, will probably put in Independants, who in actual fact usually support Bishop Muzorewa's African National Congress — a non-party organisation.

In the last election, the Africans gave their majority votes to the Centre Party candidates — a multi-racial party, and put in seven African Members of Parliament. Now they seem to have lost hope of this being a solution, as has been shown by recent bye-elections. At the same time the Centre Party, which failed to get one white candidate elected on a multi-racial ticket, is losing white support. There is no doubt that if the European had been willing earlier on to accept the principles of this Party, instead of the white supremacy of the Rhodesian Front, the story could have been a different one. Now it seems too late, as the African is pressing for majority rule, which could eventually mean a Black Government to replace the present white one.

There is a new all-white opposition party in being, lead by an ex-Rhodesia Front M.P., who quarrelled with the Prime Minister, Mr. Ian Smith.

It remains to be seen whether he and his new Rhodesian Party can get the white voters on their side. There is no doubt that the principles of this party are more liberal and tolerant than those of the Rhodesian Front, and might be more acceptable to the African leaders.

A Peaceful Solution

If the Rhodesia Party could convince the white electorate of 85,000 voters, that they could achieve a settlement with Britain, if elected to power, there is just a remote chance of a change of Government. This in turn could have a marked effect on outside world opinion as the present rulers have built up a picture of racial oppression, similar to apartheid. Although this is far from being true, the recent detention of Dr. Sithole does nothing to lessen the accusations of the overseas press.

A peaceful solution to Rhodesia's problems could be of immense importance to the West. It is to be hoped that the white citizens of Rhodesia will see the need for this. By showing the world that they genuinely want to share the Government of their beautiful and prosperous country with the indigenous Africans the sooner any threat of disaster and revolution will be removed.

THE FALKLAND ISLANDS

A Loyal British Colony

For over 140 years the Falkland Islands has been a British Colony situated in the South Atlantic some 300 miles east of the southern tip of South America. The Islanders have repeatedly expressed the wish to remain British.

The Argentine claims to be entitled to sovereignty over the Islands for reasons of nationalistic pride and in recent years has pressed her claims in the United Nations. Unfortunately little has been done by Britain to refute these claims.

In March 1968 the Falkland Islands Committee was formed in London at a time when it appeared that the future of the Islanders might be decided by the British Government in negotiations with the Argentine, without reference to the wishes or needs of the Islanders themselves. The 1968 crisis was resolved, but many uncertainties remain for the future. The Committee has the object of assisting the Islanders to formulate their views on all questions concerning their future, without being subject to pressure, direct or indirect, from any quarter.

The Committee thus also exists to see that the Islanders' views and wishes are made known, properly understood and fully respected in the United Kingdom, at the United Nations and generally throughout the world.

The Committee has acquired recognition over the past six years through its representations to the British Government and its views are regularly sought by the Departments concerned.

The People

The population, which approximates to that of the Scilly Isles, numbered 1,957 at the time of the last census (in 1972) and, of these, 78% were

born in the territory and no less than 97% were British subjects, almost all of English, Scottish, Irish or Welsh descent. Many Falkland Islands families have been islanders for six or seven generations. There are no racial or minority problems whatsoever. Neither are there any political parties in the Colony. Government is exercised through Executive and Legislative Councils both of which have unofficial majorities. The relationship between the Employers' representative body, The Falkland Islands Sheepowners' Association, and the Falkland Islands General Employees' Union is amicable and a steadily rising standard of living has been maintained. There is no poverty in the Islands.

The Economy

The economy of the Falkland Islands is at present wholly dependent on sheep-farming for wool which is exported to the United Kingdom for sale. This makes a valuable contribution to the United Kingdom balance of trade through exports of finished products and re-export of wool. In 1973 over 2,000 tons of wool were shipped and the total clip realised £1,470,000. The 1974 clip was sold forward and will realise more than £2,200,000. Goods to a value exceeding £500,000 are imported annually from the United Kingdom, representing over 80% of all imports. The islands have made substantial net contributions to the British Exchequer since the war by way of United Kingdom taxation on profits earned in the Colony. The territory is not a Grant-in-Aid Colony.

The Argentine Claim

The Argentine claim to the Islands is based on succession to Spain. The interest of what was then called "The United Provinces of La Plata" commenced in 1820 with the planting of a settlement but this was destroyed in 1831 by the United States corvette "Lexington", following seizure of three American vessels. The residents were deported and the Captain of the "Lexington" declared the islands free of all government. Britain had protested at the action of the Buenos Aires Government in purporting to license a settlement and in 1832 despatched H.M.S. "Clio" to the Falklands in order to re-assert British sovereignty. The British occupation has remained to this day without interruption and has established a prosperous, contented community where no previous indigenous population existed. It was not until nearly 30 years after the British settlement in the islands that Argentine occupied the mainland of South America in these latitudes and established sovereignty there against Chilean opposition.

The United Nations Resolution

The Islanders became disturbed as the result of talks which were held from time to time following the adoption in 1964 of a resolution by the

United Nations calling for talks between the United Kingdom and Argentine Governments to resolve the dispute. The resolution of the United Nations was in the following terms—

"It invited the Governments of Argentina and of the United Kingdom of Great Britain and Northern Ireland to proceed without delay with the negotiations recommended by the Special Committee on the situation with regard to the implementation of declaration on the granting of independence to Colonial countries and peoples with a view to finding a peaceful solution to the problem of the Falkland Islands (Malvinas) bearing in mind the provisions and objectives of the Charter of the United Nations and of Resolution 1514 (XV) **and the interests of the population** of the Falkland Islands (Malvinas)." (Resolution 1514 is the general one recommending that Colonial countries achieve independence).

The British Government's Reply

At the United Nations in 1964 Britain stated that it was for the Islanders to determine their ultimate constitutional status and that the Government's position in regard to the Falkland Islands was fully consistent with the principle of **self-determination**. **The Government had no doubt as to its sovereignty over the territory.**

The 1968 Crisis

In 1967 the British Government stated that it did not regard the question of sovereignty of the Falkland Islands as negotiable and that no doubt existed as to the title of Great Britain to sovereignty. In 1968, however, a crisis developed over the future of the Falkland Islands as a British Colony; The Falkland Islands Emergency Committee was formed within a matter of days to meet what appeared to be a grave danger that the wishes of the people of the Islands would be disregarded. It received great support at once from all quarters. Following these overwhelming expressions of public support for the Islanders the British Government gave an undertaking that no transfer of sovereignty would take place against their wishes. This was supported by an assurance that no pressure would be brought to bear on the Islanders to bring about a change of mind.

Relations with Argentina

In 1971 a communications agreement was entered into between the British and Argentine Government which provided for the establishment of external air communications for the Colony. This Air Service has been provided by the Argentine Government which has laid down a temporary airstrip. The British Government has accepted responsibility for the construction of a permanent airfield and work on this is expected to start shortly. Argentina has also recently adopted a more friendly approach to the

islanders with the award of scholarships for Falkland Islands children to study in Argentine schools and colleges, the provision of medical facilities on the mainland and invitations to Falkland Islanders to visit Argentina.

The direct contacts thereby established have gone some way towards overcoming suspicion created by a half a century of hostile confrontation. Falkland Islanders are regarded, however, by The Argentine as Argentine citizens, liable to military service and other incidents of Argentine citizenship.

The Fight in the United Nations

Argentina has continued to demand in the United Nations an end to the British Colonial status of the Falkland Islands and has the support of the United Nations Committee of Twentyfour. It was pressure from this Committee on decolonisation which brought about the independence of the Seychelles against the wishes of the population who wanted to retain their close links with Britain. France responded to pressure of this nature by integrating her smaller overseas territories into Metropolitan France, but the British Government appears unwilling to accept this solution; it would probably be welcomed by the Falkland Islanders.

The Future of the People

It was announced on 7th June, 1974 that Britain hopes shortly to resume talks with Argentina on the Falkland Islands.

If Britain is not to offer integration to the islanders the only alternative acceptable to them is to exercise their right of self-determination by continuing their present status with the support of British public opinion and Britain's friends, particularly the Commonwealth Countries and the members of the *European Economic Community* in the United Nations. This right to self-determination is given under the United Nations Charter, Article 1, Paragraph 2, as follows—

“To develop friendly relations among nations based on respect for the principle of equal rights and **self-determination** of peoples, and to take other appropriate measures to strengthen universal peace.”

Summary of Present Position

The Islanders continue to express their wish to remain British, although they are glad to maintain friendly relations with Argentina from which they enjoy material advantages. At present there is much public debate in the Islands on their constitutional future, although no conclusions have yet been reached.

All three major political parties in Britain are in general terms agreed that there should be no change in the sovereignty of the Islands against the wishes of the inhabitants. Nevertheless, talks continue to take place at intervals between the British and Argentinian governments on the future of the Islands, to which the Islanders are not party.