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COMMENTS

Allied Forces

Foreign Exchange Equalisation

The recent negotiations in Washington and London have once again demonstrated that the problem of foreign exchange equalisation is gradually imposing a serious strain on Germany's friendly relations with the USA and Great Britain. The main problem is that the Federal Republic is finding it increasingly difficult to make the compensation payments, which now amount to DM 3,300 million a year. Purchases of military equipment on this scale cannot be made, partly because that amount of material is not needed, and partly because of lack of financial resources. As far as finding the money is concerned, the budget is simply not large enough: merely to fulfil the contract with the USA—which expires on June 30th, 1967—the defence budget would have to be increased by DM 2,000 million. Nor would such an increase allow for the fact that the defence budget will, in the future, be increasingly burdened by the steady rise in current defence expenditure. Although it might be feasible to cover the deficiencies in the regular budget by government loan raising, this is clearly not a solution to be recommended: apart from any doubts about the principle involved in such an action, the proposed Federal loan also has to overcome the problems posed by the liquidity shortage in the German economy. Moreover consideration must also be given to the possibility that the banks would try to compensate for the outflow of DM one or two thousand million by calling in a part of their foreign investments. By doing this they would frustrate the balance of payments relief to the allied countries—the relief which is the avowed aim of foreign exchange equalisation.

Even in the past the expenditure of these sums has created many difficulties. Past experience has shown that the commitment clause inhibited a flexible placing of orders. The lesson to be learned, therefore, is that the spending of the reduced sums in the future should not be limited so rigidly to the purchase of military material: the nature of the goods purchased is not, in any event, of much importance in achieving foreign exchange balance.

Transferring expenditure from military to non-military goods will not eliminate all the difficulties encountered when it comes to placing orders. The agreement with Great Britain illustrates this: the competitive element of the British economy seems to be too small to attract the desired volume of orders, even if German, or foreign imports from Great Britain were to be subsidised by means of German credits on advantageous interest terms. Even if we ignore the fact that these subsidies would encounter strong opposition from foreign exporters, we have to remember that they would also violate the GATT rules. On the

other hand a desirable capital expenditure—from the German point of view—would be participation in a common space programme, and in other major scientific projects.

All the proposals for changes so far discussed have one disadvantage in common: they confuse the political, the military and the economic points of view. For this reason it would be better to place foreign exchange equalisation on a multilateral basis by handing the problems to NATO. The desire of the Federal Republic to do this seems all the more justified by the fact that the American and British troops—insofar as they serve any military purpose—serve to defend all the member countries of NATO, and not any one single country.

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EEC—Meeting of the Council of Ministers

27th July—a Date to Remember?

The agreement over the EEC policy for the agricultural commodity market, which was reached during the dramatic all-night sitting at Brussels on 26/27th July, has overshadowed two equally important resolutions: firstly the agreement on a balanced development policy for the Community, and secondly, the agreement on the related questions of export credits for the Soviet-occupied Zone and the countries of the Eastern bloc. The Six have agreed to limit government guaranteed export credits to the Eastern Zone to five years, and, at the same time, they decided that the amount of credit provided should be related to the level of interzonal trade. The Bonn Government had observed, with considerable misgivings, that from 1961 until March 1966, the EEC partners had allowed credits totalling DM 292 million to the nationalised enterprises of the Eastern Zone. This was causing concern on both political and economic levels. While the Brussels decisions on the formulation of a common trade policy are more than welcome, agreement on export credits is rather staggering. The five-year limit on loans is to be applied only to trade with the Eastern Zone: the Eastern bloc is not affected by this ruling. The passage of time has shown ever more clearly just how easily the Bern Union can be circumvented by skilful manipulation. We have to ask ourselves why this fact is accepted when dealing with the countries of the Eastern bloc, but not when exchange of goods with the Soviet-occupied Zone is concerned? The balanced development of the Community in the future can scarcely be a topic for discussion until this matter has been thrashed out: there is a danger that sooner or later this resolution will prove to be an obstacle to development. Moreover, the decision that the volume of credit allowed to the Eastern Zone should be in proportion to the level of interzonal trade is also rather unfortunate, for inter-

zonal trade, hampered as it is by ideologies and political imponderables, subject to the close interplay of business and politics, and exposed to constant fluctuations, is carried on in an atmosphere at once disquieting and inimical to the mutual exchange of goods. Only time will tell whether the most recent Brussels decisions should be considered a milestone in the evolution of a common European export policy and a common trade policy with the East, or whether, in this case, the EEC stuck halfway. The 27th July—a date to remember? Perhaps.

sch.

EEC — Association

One Step at a Time

The flow of Spanish trade is being channelled more and more towards the Common Market. While the total volume of the country's foreign trade has trebled since 1960, the proportion of imports from the Common Market rose from 22.5 % to 38.7 %. Exports to the EEC climbed from 28.2 % to 36.5 %. The reason for this increase is to be found principally in the favourable geographical position which Spain occupies vis-à-vis the Common Market area, in the particularly strong demand in the Common Market for Spanish products, and in the constructive economic policy followed by Spain in recent years.

But the common external tariff, and the agricultural market regulations create considerable barriers to a closer trade-nexus. The desire for a faster association is tempered by the many questions to be resolved. Considerations of prestige also affect the thinking of those in favour of an association. "Formal" partnership has fewer supporters in Spain today: it has given way to a more pragmatic attitude, which values the content of agreements more than their form. This is due in large part to the influence of Alberto Ullastres Calvo, the head of the Spanish delegation to the EEC. Admittedly the limited scope of the projected discussions on commercial policy matters will not resolve for a long time the far-reaching differences, but this "step by step policy" certainly increases the chances, firstly, of submitting a concrete mandate to the Commission and, secondly, of success in the negotiations for admission. The talks envisaged for the autumn give grounds for hope that the association of the important European countries forming the original Six with other European economies will point the way to an economically viable united European community.

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Argentina

Reasonable Creditors Wanted

The fall of Dr. Illia's government, and the inauguration, with military help, of President Onganía, has raised hope anew, not only for the Argentine economy, but also among the Argentine's various creditor countries. While the Argentine economy bases its hope for the future on the mental and political abilities of the new Minister for Economic Affairs, Dr. Salimei—an appointment which seems to guarantee a more liberal and less "dirigiste" course—the creditor coun-

tries can draw encouragement from the statement that the new regime will try to pay off the enormous foreign debt more rapidly. This had reached the figure of \$ 3,200 million at the end of 1965. The realisation of this intention, however, seems to depend not only on the initiative of the new government, but also on the behaviour of the creditor countries.

If they want their money back they have to give Argentina the opportunity to earn the foreign currency necessary to repay its creditors. Since about 90 % in value of Argentina's exports is made up of agricultural produce—particularly wheat and meat—this means that the industrialised creditor countries will have to abandon the policy of protectionism with which they defend their own markets for agricultural products. If they want their capital aid to be effective, the industrialised countries have to supplement it by scrapping the fences with which they defend their markets. This is so logical that it seems difficult to deny it any longer.

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Motor Cars

Japan ante portas

The Nissan Motor Corporation of Yokohama has started marketing its medium-size passenger cars in the Netherlands. The marketing is on a full-scale basis, and is being carried out through a new sales company set up in co-operation with the Dutch holding concern of Hart Nibbrig & Greeve N.V. in The Hague. The new company—known as Datsun Nederland N.V.—has set up its first service station at Sassenheim, and aims, at present, at an annual sale of 1,000 cars in the Bluebird and Cedric series.

At first sight this step appears to be heroic, particularly when the big automobile industries of Germany, Italy and France are taken into account: nonetheless the logic behind their thinking is sound. The Netherlands produce no cars except the small Daf, and there is thus no competition from medium-sized domestically-produced cars to be countered. If, moreover, the Japanese have learnt something from studying the successes achieved by Volkswagen—and it seems very likely that they have—they will clearly have a good outside chance of succeeding. Their chances will be bettered if they set up adequate service stations—the first lesson to be learned from studying the Volkswagen success story.

During the last five years Japan has been able to increase its car exports ten times over, and even sold one fifth of the 67,000 passenger cars exported in 1964 to the USA, the world's most important automobile producer. The correctness of their strategy has already been proved by their experience in other European countries without a domestic motor industry, like Denmark, where in the first year 1,215 cars were sold, and in Finland where, in the same year—1964—3,321 cars were sold.

These efforts to open up the European market for their automobiles demonstrate quite clearly the Japanese interest in changing the pattern of their trade relations with Western Europe.

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