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Indian elections: Crisis or beneficial shock?

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COMMENTS

German/Arab Relations

The First Step has been Taken

The resumption of diplomatic relations between the Federal Republic and Jordan is a first step towards a normalisation of the relationship between Bonn and the Arab States. Egypt's guarded efforts, via the Arab League, to resume talks with Bonn justify such hopes. Hitherto the tense situation between the countries of the Middle East and, in particular, the frequently difficult relationships of these states with the UAR was one of the main obstacles to such normal contact.

Another difficulty—the acute emotional reactions in the Arab world to the dispatch of a German ambassador to Tel Aviv—appears to be decreasing relatively in significance. Although the Arabs still mention the Palestine question in the same breath as German reunification, their esteem for the Federal Republic's economic potential is gaining in importance. This is particularly true of Germany's influence inside EEC and the Western communities, both as to possible financial and technical assistance and also any future expansion of trade relations. In view of the delicate balance-of-payments situation of most Arab countries, the Federal Republic is an attractive market. Its influence upon EEC's foreign trade policy is considered very prudently. It is known that in Bonn the continuation of traditional economic relations with the Arab zone dating back to the 19th century arouses a great deal of interest, to say nothing of the political significance which a resumption of relations would have. The Arab leaders rightly feel that the resumption of normal relations will mean greater sympathy for the economic problems facing their countries. ma.

Export Financing

The Krupp Case

Hardly any German firm has become such a symbol of German economic power as has Fried. Krupp, Essen. For this reason, hardly any piece of news concerning German economic life could cause such world-wide interest as did the statement, issued in March by the Federal Minister of Economics, that the Federal Government intends to help Krupp's by taking up a guarantee to the amount of DM 300 million to assist Krupp's to solve the problems it is encountering in financing exports.

This statement appeared to confirm the rumours about Krupp's financial difficulties first heard three years ago in England. However, a closer examination shows that even during this crisis Krupp's has not forfeited much of its function as a barometer for the German economy. The firm is heavily engaged in the shrinking coal, iron and steel sector. The structural crisis in coal and the trading crisis in the steel industry have caused profits to decline. Because of decreasing domestic demand, in the manufacturing sector Krupp is at present much more dependent—as is the entire German capital goods industry—upon export orders. However, where capital goods are involved, international competition has long meant, essentially, competition as to credit conditions. It is therefore obvious that lack of scope for self-financing and the restrictive measures taken by the German Bundesbank could only mean that the international competitiveness of German industry would be severely prejudiced and its available financial margin limited. The Federal Government recognises the particular difficulties of the German capital goods industry. Therefore its assistance to Krupp's was deliberately restricted to the handling of export orders. In addition, the Federal Minister of Finance let it be known in an interview that a general alleviation of export financing will be considered. ho.

Indian Elections

Crisis or Beneficial Shock?

India has been to the polls. Against the background of the perhaps most critical year in India's history and in a situation where the life of millions of people depends literally upon the punctual arrival of hopefully awaited shiploads of wheat and rice, the Congress Party—which has ruled with an absolute majority in the Lower House of the Central Parliament (Lok Sabha) since 1947—has appealed to the Indian electorate. The Party has suffered considerable losses both in the Central Parliament and in certain provinces of the Indian Union. Nevertheless it does still have an absolute majority in the Lok Sabha, although this has dwindled from 362 to 277 seats.

The larger number of votes for the opposition parties is attributed mainly to dissatisfaction about the deterioration of the food situation, rising prices, unemployment and corruption in government circles. Errors of economic planning, which gave first place to industrialisation instead of to agricultural develop-

ment and which also meant that no benefit was gained from devaluing the Rupiah, encouraged this trend. This weakening of the Congress Party is accompanied not only by a strengthening of the Swantantra and Jan Sangh parties—which incline towards the West and recommend a more liberal economic policy—but also by a growth of the Left, so that it will probably become yet more difficult to solve the Indian crisis.

On the other hand, people are already speaking of the "beneficial shock" of these elections, which might give India's political life a more distinct profile and—with a more compact and stronger opposition—offer fruitful alternatives. Congress' monopoly position, which has proved increasingly fatal, has been destroyed. New forces have the chance to collaborate in shaping the future development. But this will depend, to a great extent, upon whether Congress and the other parties are prepared to place their country's interests above their own and whether they are prepared to work together in all vital matters on a national and an international level.

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Fruit Marketing

"Chiquita for Quality"

For a long time tropical fruits were imported into Germany as unbranded unspecified goods. These fruits were first given individual markings and brands were developed when certain producer countries were endeavouring to increase their share of the market. Previously this had been customary only for industrially processed consumer goods. A good example of this procedure is citrus fruits from Israel and South Africa, which have become widely accepted on the market under the brands "Jaffa" and "Outspan". Another fruit which has hitherto been sold unbranded on the German market is now beginning to be developed as a brand, namely bananas from the Republic of Honduras under the brand name "Chiquita". This label guarantees high quality, both in appearance and taste. Consumers and retailers are made aware of the new brand of bananas by advertisements and television publicity. This is how the "Chiquita" bananas are to be raised out of the general run of anonymous goods.

This is an example of how producer countries or fruit exporters resident there are taking the initiative to increase their exports. By working together with the German import, wholesale and retail trades, they have already succeeded in gaining for "Jaffa" and "Outspan" a larger share of the generally increasing sales of citrus fruits. Also the new branded bananas might well mean that the exporter of bananas from Honduras—the United Fruit Company—can significantly increase its exports to the Federal Republic. Developing countries wanting to conquer the German market should be stimulated by these examples to work out new ideas of their own, test them and put them into practice with the assistance of the trade

in importing countries. In this way such countries can gain new classes of buyers for their exports and expand and exploit to the full the absorbing power of their export markets.

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Foreign Exchange Equalisation

A Compromise, not a Genuine Solution

It seems that the current negotiations between the Federal Republic and its Anglo-Saxon allies on the future arrangements for foreign exchange equalisation will lead to a solution acceptable to all parties. It has apparently been accepted that the previous arrangements for annual payments by the Federal Government to the sum of approx. DM 3,500 million, tied almost exclusively to the purchase of military material, are no longer practicable. It is not possible for the Federal Republic to make available the necessary funds from the Budget, nor is it possible to find a sensible use for these funds as long as the "commitment" clause is retained. The solution—which at present is under way with the Americans only—is a progressive one for three reasons: to begin with, its basis is no longer to be the link between the strength of the American and British troops stationed on German soil and the volume of foreign currency compensatory payments. Troop withdrawals shall no longer be used to bring pressure to bear, but shall be considered solely from the aspect of joint Allied security. The new agreement shall also entail the cancellation of the "commitment" clause. In future, the Federal Republic is to buy military equipment from its allies only to the extent which is reasonable economically and from considerations of defence policy.

The new agreement at last takes into account the fact that foreign currency equalisation is exclusively a balance-of-payments problem. It is not necessary for the flow of foreign currency to the Federal Republic to be met by corresponding fluctuations in the balance of trade. For this reason it is to be welcomed that, in respect of America, the German Government is undertaking to achieve an equalisation based on monetary collaboration between central banks for that part of the foreign currency in-flow which cannot be covered by compensatory purchases of military or civil goods: i.e. the German central bank will not have to transfer into gold excess foreign currency profits deriving from foreign troops being stationed in Germany, but will convert these into US Treasury Bills with a maturity date of not less than one year. For America, this arrangement will mean that the balance-of-payments situation will be correspondingly relieved by this influx of capital. For the Federal Republic, the problem of raising and utilising funds will be solved, at least in the short term. In the long term, however, it is hardly possible to achieve a genuine solution of this problem by forcing the Bundesbank, against its will, to purchase an ever-increasing volume of securities.

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