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## US Trade policy: New East Bloc embargo?

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# COMMENTS

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## *Development Aid Tax Law*

### **Incentives for Commercial Firms too**

In order to promote private German investment abroad, Bonn is giving some thought to a renewal of the existing development aid tax law and to an attempt to integrate this more effectively into German development aid policy. But the amendment still does not cover investments in current assets. Tax relief can still only be claimed where the investment is in non-durable goods forming a part of the capital assets.

Such restrictions upon tax relief have an adverse effect, not least upon German exporters and importers whose investments abroad consist mainly of liquid assets. Are their investment less desirable, from the point of view of development policy, than those of German producers?

German exporters maintain spare-part and stock depots in less developed countries; these safeguard the employment of capital goods exported by Germany and help avoid troubles and loss of time on the production line. German importers have depots in developing countries where local products are sorted, handled and thus prepared for export. Knowledge of markets and local conditions and products accumulated by businessmen resident abroad help promote new products and develop exports. Thus, by virtue of their own investments in developing countries, these importers have an important contribution to make to export trade from such countries.

Once the significance—in terms of development policy—of such investments is realised, it will become obvious that German exporters and importers must be granted tax reliefs by including current assets under the terms of the amendment. This will also help less developed countries both to maintain their home production and to promote their exports. sc.

## *Near and Far East*

### **British Troop Reductions**

The British Government plans to withdraw from all military commitments in the Near and Far East, including the Mediterranean area. Apart from potential defence interests affected by these decisions, certain important economic consequences are bound to result. In the financial year 1967/68 alone, it is intended to withdraw 25,000 men—about one quarter of the fight-

ing forces stationed in this area—plus 6,000 dependants; the British Government expects to make a saving of £ 75 million in foreign currency here. This, and the further sums saved by additional troop reductions, will create a considerable future void in the countries concerned. Thus the announced withdrawal of a further 10,000 military personnel from Malaysia and Singapore caused these governments to ask for an assurance from Defence Minister Healey that he would support them in case of financial difficulties. The British Government is likely to be reminded of these promises very soon, for in Singapore alone there are 40,000 civilians working in military establishments.

On the other hand, the measures envisaged are bound to have unpleasant consequences for Great Britain, too; the return of so many men entails difficult problems connected with accommodation and employment. At a time of acute housing shortage the government have already purchased 3,700 new family houses, but between now and 1970 they will have to find accommodation for another 20,000. Moreover, they have to provide the corresponding social services, schools and hospitals for the returning troops. Thus the saving in foreign currency is more than offset by increased expenditure for supporting the repatriated troops in Britain. It thus appears doubtful whether the intended reduction in the defence budget will really bring annual expenditure to about £ 2,000 million. Because of urgent financial requirements, the British Government has already announced a further absolute reduction in troops of 75,000 by the mid-1970's. rg.

## *US Trade Policy*

### **New East Bloc Embargo?**

For some years now, American export interests and the US Government have evinced a mounting interest in trade relations with the East Bloc. The reasons for this new policy—which has replaced the former policy of discrimination against the Communist countries of Eastern Europe—are due, above all, to the spectacular successes of Western European competitors in exporting to Eastern Europe, and also to renewed efforts to improve the United States' balance of payments.

Over the past year 400 types and groups of goods have been released from the Commodity Control List (a Cold War relic) in connection with measures taken

to liberalise the US export position vis-à-vis East Bloc markets; in October 1966, the Export-Import Bank was authorised to underwrite credits for the export of industrial goods to Poland, Hungary, Bulgaria and Czechoslovakia and to co-finance technical equipment for the Fiat works in the USSR to the tune of \$ 50 million. As a consequence of this and other measures, US exports to Eastern Europe (excluding Yugoslavia) rose to over \$ 200 million in 1966, compared with \$ 139 million in 1965.

Recently, however, these efforts to step up trade relations with the Eastern Bloc have suffered a quite considerable setback through the US Congress. The US Senate vetoed support for the export of machinery to the Fiat factory and also any Export-Import Bank promotion of US exports to countries, "the government of which is furnishing goods or supplies" to North Vietnam. This attitude may be understandable on the basis of domestic worries about Vietnam, but is a cause of political and economic concern. Although the exact range of countries affected by these new regulations has not yet been defined, there is a danger that American exports to East Bloc countries will suffer an overall reduction, quite apart from possible political reactions to such restrictions upon trade.

It is mainly the countries of Western Europe which will gain from the American exporters' "voluntary restraint" and they will certainly not hesitate to take advantage of this. It is now for the American Congress to weigh the political advantages of such restrictions against the consequences of a new move towards an East Bloc embargo. hch.

## UNCTAD

### EEC's African Policy

The EEC's relations with its African associate members and Madagascar have come under sharp attack from Raoul Prebisch, Secretary-General of UNO's World Trade Conference (UNCTAD) at its Council meeting held in Geneva from 15th August to 8th September. It was claimed that the 1963 Yaoundé Agreement endangered the independence of the African states and tended to transform them into a mere appendage of Europe. And, lastly, the speaker stated such systems of regional preference are sharing the responsibility that efforts to raise the standard of living in less developed countries have failed.

Such criticism obviously ignores the fact that the association agreement—in total contrast to the bold plans of the UNCTAD Secretariat in Geneva—has, in fact, achieved a considerable increase in the associated African countries' exports to EEC. The African countries' trade balances vis-à-vis certain EEC countries have not only been squared but actually show remarkable surpluses. Apparently it has not been thought worthwhile to mention either the work of the European Development Fund or EEC's stepped-up efforts to promote private investment in Africa.

Surely, such an attempt to brand regional preference systems such as the Yaoundé agreement, as a special attempt to secure spheres of economic influence in the Southern hemisphere for the world's industrial centres is totally misguided and throws doubt upon the objectivity and the motives of the speaker. Such alarming attacks as those uttered by Raoul Prebisch are quite likely to transform the second World Trade Conference due to be held in New Delhi between 1st February to 25th March, 1968, into a confrontation between Western industrialised states and the 77 developing countries. Such tactics will not bring UNCTAD any nearer to its undoubtedly desirable "global strategy of development". A sober and non-political distinction between desire and reality appears urgently necessary in all future negotiations. re.

## India

### A 20 Per Cent Growth Rate

After a few weeks' delay the economic development programme for the current financial year (1967/68) has been submitted to the Indian Parliament. Only a minor proportion of the planned investments, amounting to Rs. 22,460 million can be financed from the country's savings. The planned savings quota of 6.4 per cent would have to be three times its present amount before becoming sufficient to assure a proper growth of the Indian economy. Thus Rs. 10,100 million must be raised by way of outside financial aid. The remaining gap of Rs. 740 million is expected to be covered partly through deficit financing and a probable increase in taxation.

A salient factor is the intended 35 per cent increase in expenditure on family planning, for which 3.5 per cent of total expenditure has been set aside. But the most important sector of development planning is still concerned with agriculture and its ramifications. No new projects have been planned in the business sector. Government promotion is clearly limited to projects already in an advanced state, or those where production is likely to commence soon.

All in all, the planners envisage a growth rate of 20 per cent of the national product. But such a growth rate must be scrutinised critically. First, the anticipated rate of inflation is 8 per cent; secondly, it is probable that—as in former years—the figures stated in the plan will be reduced to a more realistic level. In view of the overriding relative importance of agriculture, a few natural catastrophes would be quite sufficient to upset all forecasts. The optimistic tenor of the plan should not delude us for a moment: India will still have to rely on foreign aid—for a long time to come and probably in increasing measure. It might be a good thing if Western countries were to give some immediate thought to the possibility of alleviating India's financial burden by means of a general moratorium on credits, so that the country can continue with its important development projects. ke.