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Shipping: The dollar rules the waves

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COMMENTS

East Africa

Promising Endeavours

During the first days of December, the treaties about a cooperation between the three East African states Tanzania, Uganda, and Kenya, aiming at a common market, were signed in the Tanzanian town Arusha.

Surely, in order to realise obvious economic successes, the African developing countries will have to overcome numerous difficulties in joint action—first e.g. the obstacle of the different stages of development. Kenya, which is the most developed and most industrialised country as compared with its neighbours, will have to orient its economy to the new markets. And Tanzania and Uganda will have to make intensified endeavours to keep up with their competitor. An equalisation tax on Kenya's export products aims at supporting and strengthening the endangered industries in Uganda and Tanzania. The establishment of an East African bank to finance projects in the weaker countries is also to contribute to the creation of equal starting positions.

In order to materialise the pre-requisites for a progressively closer economic cooperation, foreign states can help the African nations effectively. For, the prospect of an economically and politically strong common market will be an investment incentive for foreign enterprises and will cause them to stimulate the industrialisation by imparting their know-how and offering their capital. In view of such promising endeavours on part of the African countries, the industrialised nations will be more inclined to grant development aid and to support these efforts by means of suitable measures of development policy—for instance by granting marketing aid for export products, or capital aid for the development of industry or infrastructure. sc.

Mexico

Influenced by the East?

Mexico has diplomatic relations with the East Bloc countries, with left-wing African and Asian governments, and—as the only Latin American country—with Cuba. There are in Mexico several left-wing parties, and especially among lecturers and students of economic and social sciences Marxist philosophy

is enthusiastically discussed, and the Cuban revolution is openly admired.

It would, however, be wrong to conclude from this that Mexico has inclinations towards the Communist World. Mexico had to fight hard and long for its independence and therefore advocates a foreign policy based on the principle of the self-determination of peoples and of non-involvement in the inner affairs of other nations. Just because it economically depends in many a respect on the USA, Mexico refuses every political influence from the North, which might encroach on its own freedom of political decision. But the Government keeps an equally sharp eye on Eastern attempts of infiltration, particularly from Cuba.

Still today some 50 per cent of the Mexican population is engaged in agriculture. The ever recurring regional peasant revolts after bad harvests and tempests are without doubt stirred up by groups influenced by Cuba; but the increasing industrialisation, the economic stability of the country as well as the strong position of the state party, the PRI, which enjoys a far-reaching trust, takes away every breeding-ground for subversive attempts.

Perhaps this is the very reason why Mexico can afford to have friendly relations with both political camps, and to follow its own way on the road of economic and political development. ri.

Shipping

The Dollar Rules the Waves

Uncertainties about the full implications of the devaluation of the pound brought the dry-cargo tramp charter business of the Baltic Exchange in London almost to a standstill. The demand of shipowners for all freight payments to be made in dollars also had a restricting effect on business. The pent-up demand for prompt available tonnage, however, and other seasonal factors will certainly lead to a brewing up of charter business. The shipowners may keep to payment in dollars in the next few weeks, certainly as long as the charterers are not prepared to make rate concessions for sterling freights.

London shipbrokers believe that sterling charter rates will finally rise some 7–10 per cent above the level before devaluation. The tenacious preference of the

dollar freight, however, could raise the sterling rates particularly for voyage charter above 14.3 per cent—that is the amount of the devaluation.

The British shipowners have to keep to as large as possible a settlement in pounds, as they have to pay for the main part of their harbour fees, bunkering, etc. in foreign currencies, the price of which has risen by about 17 per cent because of devaluation.

From all this the resulting cost rise for British shipping will be in the region of £ 50 to £ 60 million. About three fifths of this amount fall to the share of liner shipping carrying high quality export products. This increase could be covered by raising liner tariffs by 5 per cent. It is supposed, however, that foreign conference lines have insisted that the increase in sterling freights must be 12 to 13 per cent. Consequently British export—in view of the by now more expensive dollar freights and increasing sterling rates—will lose devaluation advantages in sea transport. re.

Uruguay

A Duel for a Stable Currency

On November 6, 1967, the Uruguayan currency was devalued for the fourth time—this time by 50 per cent. The welfare policies of the government, which are characterised by the employment of 40 per cent of the working population in the public sector, seems thus to have failed.

In the attempt to solve the many economic problems of the country the devaluation can only be the first step. In the near future, it will be necessary above all to check the enormous rise in the cost of living. Even in South America, which is quite used to inflation, Uruguay holds the sad record of a price rise of 107 per cent during the last twelve months before the devaluation. But the prospects of a stabilisation are diminished by the high demand for imported consumer goods. Immediately after devaluation, a number of retail-trade prices rose by 60 to 90 per cent, and the trade unions at once announced new demands for higher wages. In addition, the chances of holding back budget expenditure will be minimised by high subsidies to agriculture, which is to produce the foreign exchange indispensable for the industrial development of the country, as the amount of private investment will not suffice for the planned growth. The European trip of the Foreign Minister, Luisi, was therefore closely allied to the intention to make publicity for the stabilisation policies of the Government, and to make suggestions for consolidating the debts and to give incentives for extended investments.

With its new policy Uruguay apparently wants to fall in line with the directives and recommendations of the IMF, which up to now have been closely contested. Thus, the Minister for Finance, Charlone, has placed himself in a directly opposite position to that of his predecessor, Vascanellos, the present leader of the opposition. Vascanellos's policies had instigated the late President, General Gestido, and the Foreign Minister, to challenge him for a duel—a fight which never took place. The accomplishment of the stabilisation policy will probably be in many ways more difficult than such a duel. ke.

Currency Problems

Curing the Symptoms

With the devaluation of the pound sterling the international monetary system has, once again, become the focus of attention. It is said that France, now it has forced Great Britain to take such a decisive step, wants to push the US dollar from its position as the leading world currency. According to General de Gaulle, gold ought to take over the function of a reserve currency, in so far as the price of gold is to be increased.

In the post-war period the present system of gold-currency standard made possible an extraordinary growth in world trade; today, however, the worry about the workability of the international currency system is by no means a concern of France only; the weakness of the system is caused above all by a dollar crisis due to the long standing balance of payments deficit of the USA, which in turn brought about a heavy flow of gold out of the USA, particularly to the Western European countries. Even the London Gold Pool, established in 1961, does not seem to be able to guarantee the stability of the gold price in dollars. This year the member countries have already had to make 14 special contributions to the pool; France has withdrawn from the pool altogether and the USA has had to take over France's part.

President Johnson has renewed his pledge to keep the dollar stable in relation to gold. Whether this pledge can be kept depends on several conditions. One way out of the present dilemma is to mobilise extra international currency reserves, e.g. in the form of special drawing rights, as decided on by the IMF. This measure could be workable, it is, however, a curing of the symptoms only. If the exchange rates and the gold price in dollars were to remain stable, an elimination of the US balance of payments deficit is indispensable apart from international agreements. It would otherwise not be possible in the long run to maintain the gold parity of the dollar, not to mention a demonetisation of gold and its unimaginable and disastrous consequences. hch.