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East Africa: EEC-Association—And what now?

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COMMENTS

France

Reciprocity American Style

France, la Grande Nation, is in difficulties. What had started as a seemingly harmless protest movement of students ended in astonishingly damaging repercussions on the economy. But the General and his faithful Minister President, M. Couve de Murville, are still afraid of the drastic medicine of devaluing the franc. For the time being, they hope for the beneficial effects of selective import quota restrictions and of forced exports.

It is, of course, clear that no government outside France can work up any enthusiasm for de Gaulle's economic programme of which it must be said, no matter whether it agrees in detail with the rules and regulations of GATT or not, that it is highly protectionist. But extraordinary situations will always require extraordinary measures. That is the reason why the EEC countries and the Scandinavians try to make the best of a bad job and have agreed to the French programme, perhaps mainly because they hope for a quid pro quo of being granted as much leeway for similar measures of their own, should they ever become necessary in the future.

It is, however, amazing how the United States react to the French plight. Not many months ago, Washington had demanded of the EEC a premature and unilateral reduction of the external Common Market tariff under the Kennedy Round, though all the EEC members had every reason, at the time, to press for the previous fulfilment of the pledges given by the US—because the promised decision about doing away with the system of the "American selling price" is still hanging fire. Now, when there would be a chance for a friendly gesture towards the countries of the EEC, the United States has chosen to become the spokesman for all those who threaten reprisals. Do the transatlantic experts seriously believe that devaluing the French franc is a preferable alternative? Or would they also look for suitable reprisals against it?

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IMF

Gold's Lure

Since the gold market has been cut into two sections, speculation about the probable future of gold as the basis for currencies has never ceased. Discussion has been again revived by an offer of the South African government in Pretoria to the IMF to sell it about \$50 million worth of South African gold at a

rate of \$35 per ounce troy, against currency. The administration of the Fund and a number of its members do not believe that the Charter of the IMF forbids such transactions, but the United States is in favour of rejecting the South African offer. The Federal Government of the US believes that the decision made in February last about Central Banks of member countries of the IMF not buying any gold at free market prices has established a permanent agreement binding on all.

This means that the decision to be taken by the IMF will have to answer the question whether South Africa will have to sell its gold production in the free market, or whether some of it will still be channelled into currency reserves. The division of the gold market into two sections can work relatively satisfactorily only as long as the gap between the private and the official gold prices does not grow too wide. This aim, there is no doubt, can be reached more easily if all the gold offered by South Africa reaches the free market. If gold is refused unconditionally its way into currency support, this would be the signal that gold had been definitely started on the way out from its dominating eminence as the currency metal. To accumulate currency reserves artificially, after such a decision, would mean that traditional reserves are not being supplemented but replaced in this way. This process of pulling gold down from its former eminence must not, however, be drawn out infinitely. Gold's lure as the metal behind every currency has anyway been fatally weakened. Gold is not at all needed as part and parcel of the currency system, and it is only a question of time and of the incidence of death among Central-Bank Presidents when gold will at last have been completely demonetised.

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East Africa

EEC-Association — And What Now?

The East African States of Tanzania, Uganda, and Kenya have carried on negotiations with the EEC for three years, which have now been successfully concluded: These East African States are granted the same treatment as if they were inside the Common Market, which means that their deliveries to any of the Six have been made duty-free. Agricultural supplies sent to the Common Market area are to be treated, as far as possible, in the best interest of the African states. In their turn, the African partners will abolish their tariffs in respect of exports from the EEC, with the exception of import duties levied in the interest of economic development in the East African states.

Association agreements of this kind may contribute positively to economic development and industrialisation of the associate countries. Through using the preferential tariff, the East African states may succeed in gaining a stronger foothold in the European Common Market. Expanding markets for their goods in Europe would facilitate their own industrialisation and this would also help to reduce the deficit side of their balances of payments. It is only not at all certain how strong this influence might be. On the one hand, import duties and excise imposts on industrial products and on raw materials have always been low in the industrialised countries, and on the other hand, it has been agreed that the interests of the farming communities in the EEC must not be adversely affected by the new imports. This means that some import restrictions in this part of the market will probably persist. For the European Economic Community, the association will hardly bring new advantages economically, as important manufactures which the EEC countries export will continue to carry protective duties in Africa. Broadly speaking, for the whole economy, imported raw materials will even become more expensive through the association, as the EEC has given up the idea of levying an optimal duty on them. On the whole, the new arrangement will hardly constitute a major contribution of the EEC to development aid. ogm.

India

Concern About Clearing Problems

It becomes progressively more evident that barter and clearing agreements, especially when they have been made with economically more powerful partners, may carry disadvantages for the weaker partner the like of which cannot grow from exchanges of goods and services via the internationally free markets. We need not quote more than one example here: the barter trade between the Soviet Union and India. Not long ago, the Soviet government placed orders in India for railway carriages worth Rupees 600 million and steel products for R. 350 million. In exchange for these supplies, the Soviets offered transport planes, but the Indians refused to accept them, since they operate less economically than American or French types. The Soviets, on the other hand, refuse to deliver the products which the Indians would prefer, because they have ample opportunity to sell them on more favourable barter terms elsewhere.

Another big problem is repayment of the Soviet aid granted to India in the past. In 1967, the Soviets extended assistance to India valued at no less than Rupees 420 million, and if armaments and military aid are included, India's indebtedness totals at least R. 1,000 million. True, the Soviets are prepared to buy more from India but only on condition that they themselves may more extensively determine the choice of what Soviet deliveries should consist of. One of India's crucial objects is to dissuade the Soviets from pressing upon the Indians large volumes

of investment goods which, moreover, are often of a kind that is completely useless to India.

In view of increasing difficulties caused by clearing and barter trade, it would be wise for the Western countries to show a spirit of understanding and helpfulness—for example, by facilitating the search for import partners by exporters, which would go a long way to circumventing such worries entirely. In Vienna, a new Information Office for Foreign Trade Deals ("Evidenzbüro für Außenhandelsgeschäfte") has been opened, which intends to tackle such difficulties. This example ought to be emulated by other nations. rd.

Egypt

New Ways of Foreign Trade

The summer war of 1967 has plunged the balance of payments of the United Arab Republic (UAR) into a deeper deficit than ever. For this reason, the UAR restricts its imports almost exclusively to supplies coming from countries that have made barter and clearing agreements with it. Of all the imports estimated to flow into Egypt during the fiscal year of 1967/68 no less than about 60 per cent (of a total of E £ 180 million) will come from the clearing countries of the Communist bloc. In order to defend their market shares, Western exporters, too, have been compelled to conclude barter deals. However, all barter entails additional risks, since barter exports of the UAR that are offered consist only of goods that have never formed part of Egypt's traditional trade, e.g. petroleum products, refrigerators, leather goods, whose quality is generally too low for finding ready markets in the West.

As a consequence, many foreign manufacturers of consumption goods have started to entrust Egyptian firms, to whom they supply raw and auxiliary materials and technical aid and knowhow, with manufacturing orders under sub-contract. The government of the UAR is welcoming such agreements, as they help along the industrialisation of Egypt and push up employment. In order to evade difficulties about remittances of royalties and fees, Egypt has introduced a kind of "drawback system": this permits the payment of royalties on production licences and the importation of the materials to be processed only on condition that the Egyptian licensee can show that he has earned the required foreign currency through exporting finished goods. Such agreements have their peculiar value—not only because the foreign partner can use them to maintain his position in the Egyptian market but also because it is easier to find sales outlets in other Middle Eastern markets in this way than through direct contacts. One interesting case in point was the order placed with an Egyptian licensee of a West German automotive concern by Kuwait for supplying 300 motor buses. Foreign companies must scrutinise the given situation carefully before issuing a licence, in order to avoid the risk of being paid only in local currency whose uses, even within the UAR, are closely circumscribed and severely limited wi.