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COMMENTS

The World Bank

Considerable Expansion

During the annual meeting in Copenhagen, the World Bank was able to look back to a satisfactory year, that of 1969/70, which again saw a sizeable growth of its business. Including its fraternal institutions, IDA and IFC, the Group increased the volume of its outstanding credits by 22 p.c. to \$2,300 mn. Within this total, it is hardly surprising that interest-free credits granted by IDA showed a rate of increase much superior to that of the volume of World Bank loans (by 57 p.c., from \$386 to 606 mn). But finding funds is also made easier for IDA, as it is financed exclusively by contributions levied on the "richer" member countries. With all this, however, there has always been hard bargaining for the contribution quotas allotted to individual IDA members.

Yet IDA has hitherto always been able to evade the sorry fate of financial desiccation. In November, 1970, a second general refilling of its monetary resources to a total of \$1,200 mn will have been completed, and IDA is now launched on its third refinancing round. From 1971, the Agency is to be furnished by an annual inflow of \$813 mn.

The World Bank, on the other hand, had to pay again higher interest rates for mobilising funds in the capital markets. The interest charged by the Bank to borrowers showed an increase from 6.5 to 7.25 p.c., which reflects the generally high interest rates in industrialised countries. The most important source of new loan capital was Japan, thus displacing the Federal Republic of Germany from leadership of the list. In June, 1970, total consolidated indebtedness of the World Bank amounted to \$4,570 mn, of which the United States contributed the highest share of 37 p.c. The Federal Republic was second-highest, at 29 p.c., thus being one of the most important creditors. But this does not correspond at all to the part played by it in selecting and managing the development projects mounted by the Bank. re.

Spain/USA

A New Friendship Pact

Through signing the new American-Spanish friendship and cooperation agreement on August 6, and through the subsequent conclusion of a supplementary concord on carrying out the agreement on principle, on September 25, the two countries opened a new chapter in the history of their economic ties.

When the treaty of 1953 was made, it was possible to describe it as a pact which served basically military interests of the United States. But the new agreement on the details of its execution can no longer be described as a pact on military cooperation pure and simple. For many years to come, the new compact pledges the two partners to plan and coordinate their joint activities in the fields of general technology, farming, forestry, ecology and the exploitation of the high seas, securing the continuation of active and beneficial cooperation even in future times when the two contracting parties will no longer be dependent on each other militarily to such a degree as they are today.

One of the first effects of the new arrangements will be that the protective measures for the dollar's stability imposed by the former President Johnson, in so far as they had blocked new US investments in Spain, will be partly lifted, at first, and later withdrawn altogether. There are sufficient incentives for US companies to invest in Spain. For, after having made a trade agreement with the European Economic Community during last summer, Spain has become a much more attractive partner for setting up joint venture firms hard on the threshold of Western Europe. This fact is also shown by the much-discussed French and Japanese plans for investing in that country. kw.

The Mediterranean

Nixon Shows the Flag

Already during February last, President Nixon used his foreign policy message to Congress to issue a warning against the dangers of a conflict in the Middle East. It did not take long till the horrible civil war in Jordan confirmed the truth of the President's warnings. The possibility of a confrontation of the superpowers in this area cannot be altogether excluded, in case one of them should err in its evaluation of the situation, pushing "brinkmanship" over the edge.

Gigantic ramifications of entangled interests are at stake. For the Soviet Union, the quarrels in the Middle East are only a tool for promoting its long-term objectives—notably its own superiority in dominating the sea routes to Asia via the Mediterranean, the Suez Canal, the Red Sea, and the Indian Ocean. For Moscow, this traffic artery is indispensable, in order to bolster its influence in South East Asia, which had proved to be rather limited in the power contest with China. Should the Soviet power succeed in mak-

ing this breakthrough, for which it has prepared systematically through accumulating an enormous fleet and through strengthening its maritime presence in the Mediterranean, one of the "dominoes" of enormous significance, which will fall, is the security of Middle Eastern oil supplies for Europe and Japan. A change of dependence may be initiated in this way, whose long-term political effects cannot even be fully foreseen.

It was late when the US started its counter-moves, but it is to be hoped that the delay did not make them come too late. Among them were a new concentration of the Sixth US Fleet, and Nixon's spectacular round trip, giving the fleet movements specific meaning. Five of the six stops of President Nixon—in Madrid, Rome, Belgrade, Naples, and London—were specifically pointing to the conflict in the Middle East and to the Mediterranean problems highlighted by it. Nixon was showing the flag, and that the armoured units of the Syrians have left Jordan again seems to indicate that the Soviets understood Nixon's signalling correctly, because they are as little interested as the US in the outbreak of an open conflict. hg.

Middle East

Frightened by Oil Export Boycott

In the whole world, by far the biggest supplier of crude oil is now the Middle East, and its crude reserves are also superior in size to all others. When the area is troubled by political strife a consequent embargo on all oil exports might endanger supplies everywhere, but especially to Europe. This is the pessimistic point of view, and one of the pessimists seems to be Wilson Laird, head of the Oil and Gas Administration in Washington's Department of the Interior. He warned Europeans that a new withholding of crude supplies by Middle Eastern host countries could not now be overcome, as in 1967, by aid from their American ally.

These prophets of doom, however, seem to paint the future in hues that are too black, for a genuine risk will only arise if and when all the Middle Eastern and African oil countries cut off shipments in one fell blow. Yet such a concerted action can hardly be expected, for the potential boycotters would lose revenues totalling about \$4,500 mn annually. Even during the Six-Day War against Israel, it proved impossible to set up a united front of Middle Eastern and African oil countries. Crude was sold tacitly to intermediate countries from where it flowed to the usual purchasers. If only some countries cease deliveries, the supply gap could always be bridged,

and the fact that the eight biggest oil companies own and operate production and reserves in practically all the prominent oil-producing countries of the world is a considerable contribution to continued security of supplies. But even individual governments are not likely to continue an embargo indefinitely, because most Arab oil countries have virtually no other sources of revenue and foreign currency but oil. With very few exceptions, none of the political troubles and revolutions has ever touched the inviolability of production facilities or pipelines. At the present time, it is therefore a fallacy to see the future in unrelieved black colours, and undue dramatisation of this problem is inadvisable. ogm.

Turkey

The Burden of Devaluation

On August 10, the Turkish government devalued the Turkish pound by no less than 66.6 p.c., which at first sight seems a fantastic cut, and the Turkish economy must consequently shoulder heavy new burdens. Apparently, it is intended to cut imports to the bone, in order to save foreign currency. International institutions granted Turkey a credit of \$1,000 mn after its devaluation, but this credit line is to be used most sparingly. Foreign currency which became available was used, in part, for buying back gold reserves which had been used as collateral security for lendings. After devaluation, the Turkish central bank reassessed its gold reserves at £T1,834.0 mn instead of £T1,111.5 mn previously.

To fix a new and much lower level of the exchange value makes sense only if the pressure of inflation can be lifted. Credits must at the same time be cut, big investments postponed, and collective agreements made with the trade unions temporarily frozen. It is a pity that the Turkish government has omitted to proclaim such indispensable measures on the day it decreed devaluation. Shortly after, the government itself also raised prices for sugar, petrol, coal, and other key products. Increases of transport costs have pushed up the prices for the principal food-stuffs, textiles and other consumption goods, additionally. The Turkish authorities now have sufficient foreign funds, additional credits, etc., and exports and the remittances of Turkish workers abroad are preventing a swift reestablishment of black-market prices for the currency. But long-term stabilisation is conditional on the government holding on to the restrictions imposed with such harmful delay—a disciplined national budget policy, restrictions on imports, and postponement of investments, in so far as they go beyond the limits of foreign currency holdings and export receipts. re.