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Recycling: Poor oil-producing countries

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COMMENTS

USA

Back to "Gunboat Diplomacy"?

Henry Kissinger's "Business Week" interview in which he did not rule out the possibility of US military intervention in the oil producing countries, though only "in the gravest emergency", was a bombshell right at the beginning of a year, which is likely to be overshadowed by the dark clouds of a political power struggle. Kissinger likes to give clear signals because experience has confirmed him in his hope that this is a way of preventing the worst from happening.

On the present occasion it looks again as if he has not bid too high in the power-political poker game. He has made it unequivocally clear that the use of force will not be considered in a conflict about the price of oil, but only in the event of actual "strangulation" of the industrialised West. The critical but also rather restrained echo from the oil states shows that they understand this.

Generally states do not act against their interests any more than individuals. Seeing that the gold and currency reserves of the OPEC countries will in 1975 already exceed those of all the industrialised countries together, it is not very surprising that all this power encourages them to extend their interests as long as they do not meet determined resistance from anybody else. These interests can be contained only if the opposite side is ready to face up to a confrontation while at the same time signalling its willingness to engage in a dialogue. Any reciprocal arrangement ultimately depends upon a countervailing force, which makes reasonable self-restraint imperative. That is why it is important to make quite clear to the oil producers what can happen when the arteries of the western industrialised nations are threatened. Since in a situation fraught with dangerous tension nothing would be more dangerous than equivocation, Kissinger — and President Ford who gives him his full backing — probably did the only sensible thing. To talk here of "gunboat diplomacy" is therefore mere nonsense. hg.

International Trade

US Trade Bill Passed

Now that the "Trade Act of 1974" has been passed by Congress and signed by President Ford the US Administration has at last the requisite powers for constructive participation in the negotiations for a reform of world trade. There is no longer any obstacle on the American side to the opening

of multilateral talks under GATT auspices as planned for February.

The Act which has the aim of furthering the liberalisation of international trade gives the President the right to lower the existing tariff barriers on a basis of reciprocity although a series of cumbersome procedures will have to be gone through in which Congress in particular has an important say. In regard to the removal of non-tariff obstacles which will come up first in the GATT negotiations the executive will not have it all its own way either. All arrangements in this field will require the express approval of Congress. Representatives of private industry will be admitted to the international negotiations alongside members of Congress, which will not make it any easier to reach agreements with the USA but gives the other parties a greater assurance that negotiated arrangements will not be torpedoed later. The President is empowered to take retaliatory action against unfair practices by other countries. A point of some importance for the European Community is that export subsidies for third markets are regarded as such.

The repercussions of the Trade Act on USA-USSR trade relations — the Kremlin decided to denounce the 1972 trade agreement with the United States — was not really surprising since Congress had, contrary to the President's wishes, made most-favoured-nation treatment for the Soviet Union dependent upon freer emigration for Soviet Jews. Knowing the Soviets' extreme sensitiveness to their sovereignty one could hardly expect that they would accept such interference with their internal affairs. ch.

Recycling

Poor Oil-Producing Countries

Algeria's State President, Boumedienne, has urged the countries of the Arab world not to invest their capital in Western Europe or the USA. Investments abroad — so he said — are creating a dependence even more baneful than colonial rule, and the oil-producing countries would for all practical purposes depend upon the kind mercies of the states in which they had invested.

Boumedienne's remark should make it clear to the big companies in western industrialised countries at last that their foreign investments put them at the mercy of their host countries and not the other way round as other leaders of developing countries have often — and apparently wrongly — asserted. Boumedienne can also claim the

merit of having told the world in what an awkward dilemma the oil-producing countries find themselves. If — assuming they have the absorptive capacity — they import more goods from western industrialised countries, they become dependent because foreign trade always creates "dependence" upon others. If, insofar as they cannot absorb more imports, they invest in western countries, they also become dependent, according to Boumedienne. To bury the money in the sands behind the boreholes does not seem to be very wise either. There remains the possibility of investing in other developing countries, which are certainly in urgent need of capital, but their present indebtedness and the available investment opportunities in these countries do not make such use of the capital either safe or profitable. Unfortunately Boumedienne did not say what countries like Saudi Arabia and Kuwait are to do with their oil dollars. Perhaps he will in his next interview.

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Development Aid

Thinking in New Dimensions

It is not only in the Federal Republic of Germany that the energy price crisis triggered off by the oil-exporting countries of the Third World has re-awakened feelings of resentment, which seemed to have faded away long ago. The acquisition by the Shah of Iran of a financial interest in the Krupp AG, which caused something of a sensation, and — to mention just a couple of other examples — the purchase by the Government of Kuwait of a shareholding in Daimler-Benz, one of the German prestige firms, and St Martin's Property, a highly thought-of British property company, has caused the opponents of development aid to take up the cudgels again.

Not unfrequently the whole of the Third World is made to stand proxy for the oil countries. Certain circles in the industrialised countries will only tardily and sometimes reluctantly accept that the great majority of developing countries are affected more acutely by the oil price crisis than the industrialised states and that several hundred million lives in Third World countries are now threatened by starvation. The situation is such that more development aid is urgently needed which however will have to be restructured and readjusted to the new situation. As the financial capabilities of the traditional donor countries have fallen off, it is more imperative than ever that a worldwide partnership and cooperation in development aid is sought. This must include the oil-exporting countries in particular. The oil-rich developing countries cannot and do not want to do without continued technical aid by the indus-

trialised states either now or in the long run. They possess the financial resources to participate in the provision of capital aid for the other Third World countries, but have so far only volunteered vague declarations of intent. Their participation therefore still remains doubtful, but will most probably be one of the crucial factors for efficient development aid.

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Italy

Unending Crisis?

In his speech on entering office Italy's new Premier, Moro, spoke of the gravest economic crisis for 30 years. Italy's dismal economic situation is characterized by rapidly mounting foreign indebtedness (\$ 20 bn at present), inflation rates of nearly 25 p.c., exceptionally high cost of credit and a definite recession, which is spreading over more and more industries. To go by what the men in charge of economic policy are saying, quite a few changes are to be made, for Moro has promised that the export industries and building trades, which are crucial for the stimulation of the production apparatus, are to receive favourable treatment.

The first steps have in fact already been taken. There are at least indications of a change of course in credit policy: In time for Christmas the Government's credit committee provided many alleviations and incentives for investment and exports. The Government had however misgivings about the reduction of costs by lowering of the bank rate and easing of the drastic credit restrictions, which had been imposed to counter inflation.

Italy's trading partners are now wondering whether the Government will be able to cope with the severe disruption of the economic relations with other countries by undertaking a consolidation of the internal economy. Italy has had to draw too often in the past ten years on international standby credits without achieving a decisive improvement of the internal economy. Further foreign support can only be expected in future if the Government measures point to a real turn-round and hold out the prospect of an improved economic situation and a disciplined balance of payments policy.

The credit and capital market initiatives are certainly an important step in this direction. But much will depend on the right dosage of selective measures being applied, for large trade union claims are pending and the international indebtedness calls for moderation in Italy's credit policy.

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