From the London End

High Hopes on Export Front

WITH an eye to the coming General Elections and the declining popularity of the Government as reflected in the results of recent by-elections, the latest fashion among official spokesmen on the economic situation seems to be to look forward with optimism to the future. 'Even Mr Lloyd is now acting cheerful and in his speech early last week at Sheffield he said: "In my view, there are solid grounds for confidence". The Chancellor's high hopes are based on the possibility of a dramatic improvement in 1962 of Britain's balance of payments. In 1961 the current account deficit was reduced from the previous year's £288 million to £70 million. "I should not be surprised if there is a further improvement in 1962, comparable with that in 1961". On current and capital account together, Mr Selwyn Lloyd expects a slight surplus against the 1961 overall deficit of £62 million. However, al present these are only forecasts and as the Chancellor himself pointed out, forecasts can be falsified by events, "disturbances abroad or stupidities at home can affect exports: there may be an unexpected build-up of stocks leading to increase of imports". The same optimism is the basis of the Chancellor's fervent be. lief that a substantial and sustained economic expansion is within Britain's power.

The U K Government has made a further repayment of £ 25 million in 'foreign currencies to the International Monetary Fund. This means that almost half of, the £535 million loan extended to the U K in July has been repaid. This, according to the Chancellor, was the direct result of the tough measures he took in July which had completely restored confidence in sterling.

Monetary Relaxation Expected

The City is now assuming that the next few months may see a further easing of restraints on the monetary side, such as the release of special deposits, the ending of the ceiling on bank advances, and possibly a further reduction in the Bank Rate.

The same note of confidence was struck by Mr Henry Brook. Chief Secretary to the Treasury, in his address to the Nottingham Chamber of Trade. He expressed the opinion that Britain was now well placed lo take full advantage of export opportunities which were bound to come this year with the expansion of world trade. He also pointed out that progress in exports could only be made if the domestic market was kept in check. The Chancellor of the Exchequer, therefore, had "no intention of weakening our incentive to export by re-creating a lush home market in which every article which is turned out could be sold at once", according to Mr Brook. The readiness of the Chancellor to help the exporter had been evidenced by three reductions of Bank Rate within seven, weeks. It is interesting to recall that at the lime these reductions were announced, the Government indicated that they had been made- not for internal reasons, but for external ones, the principal among them being to halt the inflow of gold and foreign currencies into the London market. Now that the Government feels the need to restore confidence among businessmen, it finds it convenient to interpret the Bank Kate cuts as a gesture to aid British exporters.

The Chancellor of the Exchequer himself still believes that strong expansionary elements in the economy will emerge without any extra stimulus. The reasons for this belief arc not known. All we have are his estimates that consumer expenditure will rise in real terms by *4* per cent next year, that stocks will at least stop falling and that Government spending of all soils will rise.

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Devaluation of Canadian Dollar

Perhaps the most significant event last week was the decision by the Canadian Government to adopt a new fixed parity of 92½ U S cents per Canadian dollar in agreement with the International Monetary Fund. This means the final abandonment of the "floating rate" of the Canadian dollar which has been in existence for the last eleven years. Canada's experience since 1950 has shown quite definiely that this experiment was a failure.

The new exchange rate represents a devaluation of about *2½* per cent against the market rate of the last few days and is about 10 per cent below the rate prevailing since the end of 1960 when the Canadian Government announced that it was taking steps to lower the value of the Canadian dollar relative to the United States dollar by intervention in the exchange market.

Although a move of this type has been expected for some time, many observers were surprised that it should have been announced before, rather than after, the General Election. The opposition parties are bound to use this devaluation as a crowning proof of financial mismanagement by the Conservatives. In the last few months, the Bank of Canada has had to support the exchange rate by providing substantial amounts of U S dollars to the market. By the end of April, Canada's official reserves were $469 million below their level at the end of 1961, but they still stood at $1,595 million which should be quite adequate to support the new lower rate.

Will Hamper U K Exports

The I M F has made no secret of its relief that Canada has abandoned the floating rate of exchange and returned to a fixed rate of exchange with only a slight element of flexibility to claim a margin of 1 per cent on either side of the new parity instead of the 3/4 per cent limit adopted by Britain and most other major countries. The Canadians themselves argue that, whereas in the 1950s the current balance of payments was in deficit and U S capital was flowing in on a vast scale, the present change in the economic situation of Canada has removed any advantages that must have been gained by flexibility. The present, position in Canada is that it is vitally important to stimulate exports, particularly in view of the fact that the inflow of capital into the country has sub-

sided, and, with the prospect of Britain associating with the Common Market, and the probable loss of preferences in the U K market, the Canadian exporter needs more than ever all the advantages he can obtain.

The main British comments on the change in the Canadian dollar rate are that this devaluation will make British exports to Canada even more difficult. The 10 per cent , depreciation over the past sixteen, months has made the prospects of export of British goods to Canada far from promising and the end of preferences is bound to add a further obstacle. It is expected that there may well be a revaluation by British firms operating in Canada of the opportunities for them in these new circumstances. With the magnet of the Common Market, many British firms may be led to believe that Europe now offers better prospects for their capital investment.

So far the only staple Canadian export commodity to be affected by the new Canadian-dollar rate is wheat. Shortly after the official announcement of the devaluation, the Canadian Minister of Agriculture announced a 6 per cent a bushel rise in the prices paid for all grades of wheat by the Canadian Wheat Board. This unexpected benefit has certainly caused great relief to Canadian farmers. As far as aluminium is concerned, however, the Aluminium Company of Canada has said that their Canadian, United States and other export prices will remain unchanged.

Capital View

Tensions and Alarums Again

Romesh Thaper

WHILE the Italian Parliament has been indulging in fist-fighting over the election of the country's President, WW have sought to demonstrate our political maturity by an elaborate programme of farewells for Dr Rajendra Prasad and a near-unanimous vole for the new Head of State. Those boycotting the poll have done so non-violently. And, even as these lines appear in print, the citizens of Delhi will for the first time throng the festooned streets to say good-bye to a leader who is abandoning political life to retire to an ashram. Many in the procession, we hope, will make of this act a continuing tradition.

Observing the passing scene, one is apt to forget the tensions and alarums which have disturbed the slow, summertime tempo of the Capital, Earlier reports that Pakistan's attempt to revive the Kashmir issue in the United Nations would place India on the defensive proved highly exaggerated although the Foreign Office itself was somewhat panicky. Denied U S support, Pakistan has now embarked on a subtle assault on the Indian position in Kashmir and Ladakh. Negotiations have been opened with China to demarcate the border between China and parts of Kashmir held by Pakistan.

Pak. China Conspiracy

If this was merely an attempt to interfere with India's sovereignty over Kashmir, we could join with the Prime Minister in accusing China and Pakistan of 'opportunism' . Peking, however, is not likely to be used by Rawalpindi in this fashion. The Chinese Government's note protesting against the setting up of Indian outposts in certain areas of Ladakh, and the threat to take action against them, is obviously very much a part of the preparation for the negotiations with Pakistan.

Past performance suggests that Peking will arrive at a speedy and amicable settlement with Pakistan while, at the same time, creating tension in Ladakh as a foil to prove how aggressive and unreasonable India is. This has been the pattern of Chinese propaganda during recent years and everything points lo its intensification. Probably skirmishes will be arranged in Ladakh to encourage the idea that India has violated the *status quo* and is pushing into areas under Chinese control — even into Chinese territory. Nothing could be further from the truth.

Last year, when the Chinese established a fairly sizeable cheek -post at a strategic point on the Chip Chap river, it was clear that the *status quo* was not being honoured. The push southward, unless countered by the setting up of Indian check posts. would give Peking the opportunity to claim more territory in Ladakh. Indian checkposts have now been established in this area — and it is these that the Chinese will seek to isolate or liquidate, Peking knows, as does Delhi, that this is not just a game of hide-and-seek in the snowy wastes of Ladakh, that if one day negotiations on the demarcation of the border take place much will depend on the location of our respective checkposis.

'China Experts' Disappointed

Comment on the revival of Chinese belligerency is not forthcoming from official quarters. Until only recently, the so-called China experts believed that there was every chance of a border settlement this year; indeed, in this context, the recent refusal of the Indian Government to 'talk trade' with China was regarded by some as an unnecessarily stiff attitude which made the reopening of border negotiations very difficult. Now, our neighbour has embarked on a war of nerves which can only lead to a further deterioration in the strained relatione between the two countries — unless, of course, one believes that the situation in Ladakh is being deliberately brought to explosion point in order to force a negotiated settlement on terms more or less favourable to the Chinese.

Pakistan has also decided that apart from border embarrassments in the North-West, it is possible to create new tensions in the North-East. The movement of Naga hostiles into East Pakistan is a reminder that even if we are able to plug the escape routes into Burma, there are other points along the frontier which can be activised by