Weekly Notes

Tariff Preference

AUSTRALIA'S decision to give tariff preference to exports of manufactures and semi-manufactures from developing countries has been hailed by India's Minister of Commerce as "bold and imaginative". Without detracting from the merits of the Australian move the context in which it has been made needs to be mentioned. Australia recently refused to approve the new Article 37 of the General Agreement on Tariffs and Trade which requires members to give high priority to reducing non-tariff barriers and to refrain from increasing tariff barriers on imports of interest to the developing countries. The new Article embodies, if only imperfectly, the conclusions of the U N Conference on Trade and Development. Australia's reasons for rejecting if have to do partly with her distrust of the GATT as an arrangement favouring only industrial exports and partly with the anxiety not to commit herself to not raising tariffs in any circumstance. Australian official spokesmen have further explained that in their view across-the-board tariff cuts as required under Article 37 would benefit the developed countries more than the developing ones. By offering to give tariff preference to specific exports from the developing countries the Australian Government has thus retained its control over tariffs and at the same time appeared to be not insensitive to the problems of the developing countries.

Under the preference system adopted by Australia, tariff rates will be reduced by between 7½ per cent and 20 per cent on imports of selected commodities from developing countries. The commodities covered include soaps, leather, carpets, coir goods, electric fans, sewing machines, machine tools, furniture and snorts goods. Two features of the preference system make it less attractive to the developing countries than it might have been. First, the Australian Government reserves the right to withdraw the preferential tariff on imports of a particular commodity from a developing country if in its view the country is "competitive" in the manufacture of that commodity. Thus, for instance, matt-woven fabrics of certain specifications of Indian and Pakistani origin have been considered ineligible for preferential tariffs. Second', along with, the preferential tariffs, Australia has fixed quotas for imports from developing countries of each item. In some cases at least the quotas fixed are very small. A further criticism could be that the list of goods entitled to preferential tariffs should have been longer.

Neither these criticisms nor the fact of Australia's refusal to accept Article *37,* however, negatives the fact that the tariff preference for developing countries is an important step towards the modification of international trade practice to meet the problems of development. Preferential treatment for developing countries is the most important part of the decisions of the UNCTAD and Australia deserves to be congratulated *(or* taking the initiative in offering such preference.

Tariff reduction by developed countries does not, however, automatically open up their markets to the exports of developing countries. These exports have to be able to compete with identical goods produced in the preference-giving country. In the case of manufactured goods at least this well not be easy since it requires a growth of productivity in manufacturing industry in preference-recipient countries which is higher than that in the preference-granting developed country. The benefits of tariff preference will be reduced also if the preference-granting countries consider the preferences as a substitute for aid. The developing countries would then lose on the swing in the form of aid what they gain on the roundabout in the. form of trade. The developing countries themselves do not appear to be adequately aware of this possibility.

Too Much Money or Too Little ?

WITH the end *of t*he busy season the monetary authorities have now to face the problems of the sleck season. The Governor of the Reserve Bank has already given notice to bankers that they would have to cut back credit sharply. And now it has been reported in the press that the authorities intend t*o* keep the screw tight not during the slack season only but the entire last year of the Third Plan. The Reserve Bank is credited with the intention *of* keeping expansion of money supply down to five per cent during the year on the ground that a faster growth would give a fillip to inflationary trends,

If the reports correctly portray the monetary authorities' intentions, then the influence of orthodox quantity theorists is plain enough. But even from the quantity theory viewpoint, the permissible rate of expansion of 5 per cent chosen is intriguing. In a year when national income at constant prices is expected to grow at a rate between 6 and 7 per cent, what exactly is the rationale of a 5 per cent expansion in money supply? Or is *the* Reserve Bank hoping to induce a price deflation in the coming months?

A deflation we may well get, but one not marked by a price fall. The investment of the last few years has created *new* capacity in almost all sectors of industry which has to be utilised while the import restrictions recently clamped are bound to affect production. Where will that leave costs and prices? Besides, what about bank credit to the Government, for monetary expansion is not all the result of credit extension to the private sector. If with the slack season contraction of bank credit, there occurs a simultaneous rise in bank subscription to Government loans, banking statistics may show a gratifying fall in the figure of bank credit without, of course, reducing money supply. Has this possibility been fully considered while setting the 5 per cent growth ceiling for money supply?

No Bounty For Cement-Makers

THE cement industry has been in bad shape for the last four years. Consumers have suffered. Penny-wise price fixation and concern with what was described as concentration of economic: power put the industry in a strait jacket. The cement industry is no more for no less) inefficient than other industries but thanks to the prices set in 1961, its profitability has been consistently and significantly low. er than average, and retention of protits has been wholly on account of development rebate, which is not available for distribution. Till recently, Associated Cement was not given any licences for largescale expansion be, cause it contributes about 40 per cent (against two-thirds before the war) of total output, while the Dalmia-Sahu-Jains have been denied expansion since the publication of the Vivian Bose Commission Report. It is hardly surprising then that inspite of two public-sector plants, a shortage of about two million tonnes has emerged — and manufacturers of cement machinery are waiting for orders.