to 5½ per cent in 1962). Sharpeville is long ago, and Verwoed can thumb his nose at all the pious platitudes that deluge the public platforms of foreign powers.

Of course, few people seriously suppose that a boycott can be a substitute for a proper rising by South Africans themselves, aided militarily by the independent African States, but effective sanctions do have the marginal function of weakening the South African economy and explicitly identifying many in the world with the suffering of the majority of South Africans. Insofar as they are effective, the intransigence of South Africa's rulers will probably be strengthened.

A world consumer boycott for obvious reasons is the most difficult to organise, and not necessarily very relevant since South Africa's trade is more significantly with industry than with consumer markets. The key groups here are thus governments, trade unions and businessmen. The governments that count (most notoriously Britain) are visibly reluctant to do anything that would injure their own economies. Last year, Britain sent 4.8 per cent of her total exports to South Africa, and took 30.1 per cent of the Union's exports, this trade dovetailing with Britain's 1,000 million pound investment in South Africa. Asking the British Government to bear alone such a very large part of a boycott is asking for the moon. And if governments are reluctant, how much more are businessmen who make the direct profits. Which leaves us with the trade unions, with dockers who unload the gold, the wool, diamonds, sugar and base metals, with the railwaymen and truck drivers who transport them, and the factory men who process them. American dockers can refuse to load wheat for Russia, a far more frivolous purpose than that considered here: it is time their consciences were turned to more significant gestures.

South Africa's economic expansion itself must prompt changes domestically — the economy inevitably bounces against the artificial wall of the limited supply of skilled white labour, and businessmen, being the pragmatic profit-makers they are, will persistently seek to evade the racial laws by redefining jobs and by other strategems — that is, presupposing, as seems obvious, that the Government will not relax its laws limiting employment by race spontaneously. Overall prosperity will inevitably cause at least some cash to seep down through the frozen social structure, which means the destabilising influences on the African labour force will increase and be conjoined with the present process of uprooting workers' families and banishing them to the reserves. What tyranny and poverty could not achieve, a small modicum of prosperity might, despite the inexorable rise of South Africa's expenditure on defence and internal security (currently running at 26.8 per cent of the budget). When that response comes, then the hopes embodied in the London conference will attain some flesh.

Letter to Editor

What Price Foreign Capital?

THE Ministry of Finance is reported to have revised its policy in regard to foreign investment. Ever since TTK staged his come-back as Finance Minister he has been airing his views on the logic and necessity of foreign investment. He first reduced the tax burden on foreign investment in his budget and now he has modified the conditions on which it is to be permitted.

According to the revised policy, majority participation by foreign capital will be permitted provided, first, the project concerned is considered to be a high-priority one in the Plan programme; and, second, no alternative source of foreign exchange to meet the import content of the project is available and the contribution of the foreign collaborators is such as to meet the technological gap in India. It should be amply clear from a careful scrutiny of these conditions that to describe them as a mere modification of the present policy is a gross under-statement. The changes mooted are of a sweeping nature and will have a considerable bearing on the future industrialisation of the country.

The first feature of the proposed 'modification' that strikes one is its extreme flexibility. So far, insistence on minority participation was the rule. From now on, whenever the Government finds that foreign aid is not forthcoming for financing any project, the door would automatically be thrown open to majority participation by foreign private capital. Under these conditions, perhaps even certain defence projects may qualify for such participation!

What is even more disturbing is the justification that is being put out for this turn in policy. It is argued that India will have to bear a huge burden of debt repayment in the years to come and that recourse to foreign private capital is necessary to relieve this burden. This is strange reasoning, indeed. Larger foreign participation in our industries will, in fact, lead to a more cumulative draft on our foreign exchange reserves once the projects are commissioned. It is mere commonsense. that given a choice between loan and equity capital, the draft arising from dividends will be larger and more continuous than that arising from interest payment on loan capital.

The burden of payments on account of dividends is likely to be substantial and will increase rapidly in the years to come. And considering our balance of payments in the long-term perspective, it is hardly likely that the country will be in a position to bear this burden in the next ten to twenty years. How then will the Finance Minister relieve pressure on our exiguous resources by encouraging majority foreign participation? At most what may happen is that the burden will be shifted from tomorrow to the day after.

The force of this argument will be better appreciated if the terras on which foreign collaboration is generally allowed am considered carefully. To mention just one point, most of the agreements specify that the items to be manufactured cannot be exported. To entertain hopes that foreign capital will contribute to substantially higher foreign exchange earnings is, therefore, clearly unrealistic.

A READER

Bombay,
April 4, 1964.