The Chartered Bank

Statement by the Chairman, Vincent Aipe Grantham, Esq

THE following are extracts from the text of the Statement by the Chairman, Vincent Alpe Grantham, Esq, to be presented at the One-Hundred-and-Eleventh Annual General Meeting of the Stockholders of The Chartered Bank to be held at the Bank's premises at 38, Bishopsgate, in the City of London, on Wednesday, the 31st day of March 1965, at 12 Noon precisely:

With events, both political and economic, moving at an ever-increasmg rate in the countries in which The Chartered Bank Group operates, we have all the time to deal with more and more complex problems. Not only do the banking propositions themselves tend to become more unorthodox but sudden restrictions, or changes in local regulations, can at any time alter the scope or the risk and add to the complexities of our day-to-day business.

Fortunately the wide knowledge obtained by our officers and staff in the countries in which they are working has gone a long way towards overcoming our difficulties, retaining the goodwill of our customers and keeping the reputation of the bank very high.

Finally, the responsibility for directing the bank's affairs in a highly competitive banking area falls on the general management and in the last few years they have had to contend with increased competition, not only from local national banks, formed and often assisted by their governments, but with the aggressive activities of the foreign departments of the British and American banks. That last year we succeeded in increasing our profits in spite of this added competition and some political setbacks is a tribute to all concerned.

We are pursuing our policy, started in the mid-thirties, to train and use local officers at every opportunity and it is unfortunate that even an acceleration in this programme has failed to satisfy some countries and we are encountering difficulty in obtaining entry and work permits for our European officers.

The Court of Directors

Mr. D. L. d'A. Willis, a managing director of Lazard Brothers & Company Limited, has been appointed a director of the bank and the Stockholders will be invited to confirm his election at the approaching annual general meeting.

Tours

In August, accompanied by the Chief General Manager, 1 visited San Francisco for the opening of our new subsidiary, The Chartered Bank of London and of the new agency of The Chartered Bank in that city. The Chief General Manager was present at the opening of The Commercial Bank S.A.L. in Tripoli, Libya in June with Sir Evan Jenkins and Sir Tom Hickinbotham and he also attended the annual meetings of the International Monetary Fund and the World Bank in Tokyo in September.

Mr. Stafford Northcote visited Australia in December in connection with our acquisition of a shareholding in the Mutual Acceptance Company Limited and Mr. A. T. Hobbs has recently returned from a tour of the bank's branches in India and Pakistan. During the year Mr. R. A. S. Lane visited our Hamburg office and also our branches in Vietnam, Cambodia, Thailand and Indonesia.

The Mutual Acceptance Company Ltd., Sydney

Before the year ended we were able to complete successfully talks which had been taking place with the Mutual Acceptance Company Ltd., of Sydney as the result of which the bank has taken a 40".. interest in the equity capital of the Australian company which, when fully paid-up, will amount to an investment of A£1,922,235.

The Mutual Acceptance Company Limited was established in Sydney as a hire purchase company in 1936 and over the years, excluding the war period when hire purchase activities literally ceased, the Company's business has prospered, the years from 1950 onwards having shown outstanding progress. The dividend history of the Company has been satisfactory and a policy of diversification into the various fields of finance has been followed so that Mutual now have a substantial investment in mortgage loans and leasing in addition to the conventional field of hire purchase for household goods and motor vehicles. There is every reason to expect considerable expansion in the Australian economy in the years to come and we are sure our first investment in Australia will prove profitable to ourselves and to our new partners with whom we are very pleased to be associated. Our Chief General Manager, Mr. W. G. Pullen, has been invited to join the Board of Mutual and our shareholding will be registered in the name of Hatton Court Pty. Limited, which has been formed as a wholly owned Australian subsidiary of the bank.

The Chartered Bank of London

This wholly-owned subsiciiary of ours was officially opened and commenced business in August in very attractive premises on California Street in the business and banking centre of San Francisco.

Our initial advertising created considerable interest in the bank and satisfactory progress is being made in this and in our new agency, opened concurrently with the bank.

We consider ourselves fortunate in having among our first directors Messrs. Leslie C. Dorking, Ben K. Lerer and Stanley Powell senior, three well known and respected San Francisco businessmen.

The Commercial Bank, S. A. L., Libya

The above bank, in which our Group has a forty-nine per cent shareholding, opened for business in Tripoli in June and, although we hope to have a further branch in Benghazi shortly, business has been slow to build up.

We are, however, fortunate to have as our Chairman His Excellency Saddigh Bey Muntasser, an influential and well-known local figure, and any spread of the country's wealth to the people and an extension of the banking habit should be reflected in our figures next year.

Allahabad Bank Limited

Our Indian subsidiary will be celebrating its Centenary in April and Mr.

Pullen and I plan to visit India to join in this important event, The Allahabad Bank is the oldest Joint stock bank in India and, as evidence that it has not lost its virility over the century, twelve new branches were opened in the past year and further expansion is planned. I informed you at this time last year that we had welcomed Mr, S. P. Puri as the first Indian Chairman of our subsidiary and, as is fitting in this Centenary year, the Board has been further strengthened by the addition of four eminent Indian gentlemen who have accepted invitations to serve as directors.

This Year's Accounts

The Bank's capital and nubhshed reserve with the balance on profit and loss account now total £17,663,195 which figure includes the proceeds of the Rights Issue in March 1964.

The continuing growth in the business of the Bank and its wholly- owned subsidiaries, reflected in the increase of £185,400 in this year's net profit, is evident from the Consolidated Balance Sheet, the total of which at £600 millions is higher than that at the end of last year: this in spite of the loss of our branches in Indonesia and Iraq and compulsory closing in Cambodia.

"Current and Other Accounts" and "Fixed Deposits" now total £480 millions as compared with £463 millions at the end of 1963.

The upward trend in "Advances to Customers and Other Accounts" noticed in previous years has continued. As you will see from the Consolidated Balance Sheet this item is again a record at £235 millions, an increase of £22 millions on the previous year's figure.

Profits and Dividends

I am pleased to report that, alter making the usual provisions, Consolidated Net Profit for the year is £1,254,778 an increase of £185,400 on that for 1963. This increase is largely attributable to further expansion of business reflected in the increase in Advances to which I have already referred.

With the balance of profit brought forward from last year of £574.024 the amount available for disposal is £1,828,802. Of this sum £100,000 has been transferred to Reserves for Contingencies and £450,000 to Reserve Funds which now stand at £9,700,000. This sum includes the share premium of £1,100,000 arising from the Rights Issue in March 1964.

The interim dividend of 7½% less income tax paid in September 1964 absorbed £353,718 and it is now proposed to pay a final dividend at the same rate, making 15% for the year. The balance then to be carried forward to the next year will be £571,365.

Capitalisation Issue

Stockholders will have received my letter of 3rd March notifying them that an Extraordinary General Meeting of the Stockholders will be neld on 31st March 1965 to consider the recommendation of the Court: of Directors that £770,000, being part of the sum standing to the credit of the Reserve Fund, be applied in paying up in full 770,000 new shares of £1 each: these shares to be issued to Stockholders whose names were on the Register at the close of business on 20th February 1965 in the proportion of one new share for each £10 Stock held. If the Stockholders assent to the capitalisation of £770,000, it is the intention of the Court of Directors to transfer a similar amount from Reserve for Contingencies Account to the Reserve Fund.

Overseas Survey

A year ago I introduced my review by deploring the extent to which the economic situation in the countries where The Chartered Bank Group operates is too often dominated by politics, and in 1964 nationalistic tendencies and changing political alignments imposed costly and unfair penallies on our business. It seemingly matters not to some countries that our branches have been operating in them for over one hundred years, through good times and bad, and have helped to open them up and build up their present wealth, or that we are still playing an important part in their overseas trade and local investment when, at the whim of a dictator or on some national pretext, our business and properties can be taken from us overnight. In Burma and Iraq it was under the guise of nationalisation, to which we apparently cannot object as long as fair and adequate compensation is given with reasonable promptness. We have yet to receive compensation from either government, and in Iraq, where steel-helmeted troops occupied our premises overnight, we have yet to receive back our sterling capital and reserves, which under international law should be paid immediately as a preliminary to talks on compensation for our business and properties. In Indonesia our business and local assets have been taken away from us after over one hundred years because of Britain's support of Malaysia and in Cambodia we were closed down because of strained diplomatic relations between that country and the United States and Great Britain,

We would like to see a greatar awareness on the part of our government of the effects on British business of diplomatic moves, and perhaps a shouldering of some of the responsibility, and although often nothing can be done to counter expropriation and discrimination arising from ultra-nationalism, the accumulated loss of this country's overseas investments and the income from them must be reaching figures that make nonsense of further plans for investment in developing countries. Perhaps the time has come when there should be an Investment Guarantee Corporation as well as one for exports. The World Bank at least has come out in a most forthright manner against the stealing of the assets of one country by another and countries guilty of such acts cannot look to the World Bank for help until proper compensation has been paid.

It is sad to have to comment so forcibly on the evils of ultra-nationalism at a time when so many countries, and the happiness and standard of living of their peoples, depend upon internationalism. Too often too, those politicians who are most nationalistic in their own countries want, and think they are entitled, to play a prominent role in the international scene.

The coverage of this review is changing slightly for no comments are given on any countries unless we have officers with first-hand knowledge living in them.

India

This year has not been a happy one for India and at its end the government itself admitted the situation was still "extremely grim". Certainly the most important single event of the year was the death of Premier Nehru who had achieved a position of unique distinction in India and was regarded with affection and respect throughout the world. While it was not to be expected that his successor, Premier Shastri, could attain such a commanding position upon taking office, it was unfortunate that almost at once he was faced with a food crisis more serious than has occurred in India since 1943.

Agriculture is of crucial importance to India, since any failure here could in the last resort undermine the nation's political and economic stability. Nevertheless food supplies failed to increase for the third year running and the resulting scarcity, in conjunction with a fifteen per cent rise in the price level, sparked off a serious outbreak of rioting and industrial discontent. The situation was exacerbated by the hoarding of stocks in anticipation of further price increases and the breakdown of the food distribution system, the latter being bhrned largely on excessive government interference. Attempts to persuade States with food surpluses to assist those with shortages were only partly successful and one of the most disturbing features of the crisis was the reluctance of the various States to co-operate. The situation has now been alleviated by massive wheat shipments from the U S A and the prospects of good domestic crops in the near future. This near escape from famine conditions only served once again to highlight the alarming growth of population and the necessity for emphasis on agriculture rather than on industrial development. It is difficult to understand why, in the face of this situation which could baulk all endeavours for economic progress, government circles and officials for the most part enthuse over steel plants and merely tolerate suggestions for improving agriculture. I have been pointing out what I considered was this wrong emphasis for many years and although more is now being done for agriculture there is still a need for substantial reform, for clearly amongst the many changes needed is the abolition of a law which restricts holdings to well under economic units. More time too should be spent in education of the farmers and they should be granted greater security of tenure.

Industry, with all the attention devoted to it, did not have the favourable performance expected, perhaps because it; had to contend with a proliferation of government regulations and severe tax burdens. Expansion was further hampered by the inflationary pressures generated by food scarcity and heavy governmental defence expenditure. Power supplies were often iinadequate and stringent import controls at times left industrial sectors short of raw materials or equipment. Under government direction the banks applied a credit policy which, whilst it did not rigidly limit the availability of credit, made it very expensive. Foreign private capital continues to be essential for further growth but an adequate supply is not likely to be attracted so long as government regulation is so restrictive and the return so small.

One can only be sympathetic with hard-working and often dedicated officials who are trying to bring this vast economy through its difficulties, but doubt must remain after the experience of the last few years whether the official policies they have to conform to are along the right lines. If theirs is a losing battle, as it sometimes appears to be, there is no doubt that the socialistic trend, the growth of a bureaucracy that has to demand more and more State controls (central government bills totalled 106 in 1956 and 340 in the last: Lok Sabha) and the increase in State trading, is mainly responsible. In this rcspect India is really at the cross roads, for it has either to go on as it is perpetuating a lifeless economy or it has to reduce taxation and controls and give the private sector freer rein. At the moment unreasonably high taxation is the greatest stumbling block in the path of economic, growth, and will remain so until it is reduced to an extent that will restore confidence and promote the investment necessary for a rapid increase in production. Some minor tax concessions have been made but they made no serious impact and furthermore the government still has not come to grips with labour.

India which should have low labour costs has very high ones to relation to output, mainly because left wing trade unionists have never been officially confronted and arbitration bodies still give rulings without reference to the country's economic needs or the plight of its people generally. It is perhaps not so serious for manufacturing costs to be above world levels in exchange savers but it is a very different thing when it comes to exports and, as the State trading departments have found, barter with iron-curtain and other countries is really no answer to this.

India is far from devitalised and would respond immediately to the right tonic, which must jnclude lower taxation. It can be contended that the penal taxation now exists largely perhaps because of wrong thinking that the comparatively few in the population able to pay taxes would have to be mulcted for the benefit of the millions on subsistence level. In fact, it is on that comparative few that India depends for the vitality of its economy, and the further contention that lower taxation means increased inflation overlooks the vast area of government expenditure and the economies that could be effected there. In any case it is doubtful if the present efforts to contain inflation are all that successful although, as I have mentioned earlier, the Reserve Bank has introduced drastic liquidity measures for the commercial banks. One effect of this has been a restriction of credit for legitimate business and it also contributes to the stagnation in the capital market which is causing so much concern.

Public apathy to new issues is making underwriting a very hazardous commitment and little improvement in this section can be expected so long as investments are still subject to capital gains tax, wealth tax and partial income tax. The recent concession by government of free tax certificates to investors taking up shares in certain types of companies docs not tackle the fundamental problems of high taxation and lack of confidence and it is a sad commentary that no successful scheme has yet been found for bringing out and utilising the vast hoard of gold in the hands of the people and that gold is still being smuggled in and paid for by money that could be going into investment. One encouraging aspect is that over the year exports reached a record level *and,* after-taking loans and grants into account, more than covered imports. Despite this, however, foreign exchange reserves remain small and the need to repay the principal and interest on past loans is now an added burden. As long as India remains heavily indebted to overseas sources this burden can only increase and makes the expansion of exports all the more vital. "Big planning" has always involved overseas aid coupled with larger deficit financing and the inevitable inflationary repercussions, and it *is* satisfactory that there are indications that the Fourth Five Year Plan, due to start in 1966, will be trimmed to a more realistic basis than its forerunners and with perhaps a more significant role assigned to private enterprise.

Though Mr. Shastri has successfully maintained India's position of neutrality vis-a-vis the rest of the world no further progress has been made towards the establishment of cordial relations with Pakistan and China. In fact, India can obtain little satisfaction from recent events on its north-east frontier, whilst Kashmir is now not only an undiminished external problem but is becoming a more formidable internal one as well. This has happened too when unfortunately the country has reached a stage in its progress when there is a definite conflict of interest between defence and development. It is to be hoped that it will prove possible to limit defence expenditure and keep development spending on heavy industry within reasonable bounds in order to give the country a much needed period of retrenchment. Such action could see India making the slow but steady recovery we know to be possible.

Pakistan

Field Marshal Ayub Khan's re-election as President of Pakistan was not only a personal triumph but a vital common-sense decision which should ensure a continuation of the stability he has given to the country since 1958. His heavy majority won in free elections is declared continuation that the nation recognises that his leadership has been a prime factor in the orderly progress that has been made during the last few years and has brought Pakistan an enhanced reputation in international affairs.

Perhaps the greatest benefit the President could now give his country would be good relations with India, for the economic gains from closer co-operation and the saving in reduced defence costs would free resources that could advantageously be deployed in further raising the standard of living of the people. To heal a uuarrel however needs goodwill on all sides and, notwithstanding a more promising atmosphere towards the end of Mr. Nehru's life, the relations between the two countries have not greatly changed and are still strained.

The position is not without hope however for trading links remain open and recently Pakistan agreed to supply rice to India in exchange for coal, railway equipment and other goods in spite of its own shortage and what may be more important, internal events in Kashmir itself may finally force a solution on all concerned. Until Pakistan is able to trust India's intentions the massive build-up in arms there will continue to be condemned, and Britain and the United States will be condemned for their part in it and receive little goodwill for the substantial efforts they make to assist Pakistan. This lack of goodwill may underlie the deep animosity in some quarters to foreign business, banking, etc, which manifests itself in what seems to be harassment and discrimination, which can only nullify to some extent the objects of the generous treatment afforded to foreign private investment in participation with local concerns.

The successful conclusion of the second five year plan owes much to overseas investments and aid, mainly from the West, for without it the gap caused by rising imports and near static exports would have reduced foreign exchange reserves to a degree that must have restricted internal development. As it is the government has been stimulated to embark on a third five year plan with even more ambitious goals and with total expenditure doubled. During that period servicing foreign grants and loans will place an increasing burden on the country's foreign balances and the percentage of the annual exchange earnings required for the repayment of principal and interest has increased from four per cent in 1960/1. to ten per cent in 1963/4. This led the Governor of the Central Bank to warn that too great a dependence on foreign loans can lead a country to accept commitments beyond its capacity for repayment.

It is, however, in Pakistan's favour that last year the first benefits of the government's programme of land reclamation. Hood control, drainage and fertiliser distribution were apparent in increased agricultural output. The yields of cotton and rice per acre started to rise, and to some extent the government schemes have left agriculturists much less at the mercy of calamitous droughts and floods. A record year is expected for the tea crop but the growing rice yield still leaves the output of foodgrains short of population requirements. Jute manufacture continues undiminished and, in spite of a series of strikes during the year, the industry remains strongly competitive. Two points to note in this general picture of expansion arc a serious shortage of skilled workers and the unprecedented level of money expansion which has accompanied the economic growth. Whether the country can absorb such expansion year after year is open to doubt and the authorities are taking steps to prevent inflationary pressures undermining future development.

These higher yields in agriculture, with continued investment in industry, a booming private sector and steady prices can only augur well for Pakistan's future, The rate of growth of population is worrying and a balance will have to be struck and maintained between the east and the west wings, which may be very costly, but with free enterprise continuing to have its chance there is cause for optimism. Politics have in the past upset the best laid plans but the politicians have now been given time to show that they are not just coasting along on the President's popularity but are themselves prepared to work honestly in the country's interests, and we should see a more concerted all-out national effort

Ceylon

Most of Ceylon's troubles are man-made and once again politics overshadowed trade and industry and little or no progress was made over the year towards stabilising the national economy. A continued left-wing swing bodes ill for the country's businessmen, and even more so for outsider,- with investments and interests in Ceylon, and towards the end of Mrs. Bandaranaike's government there was little pretext that the further socialistic measures proposed had justification on economic grounds. Amongst the proposals was the control of managing agencies and all commercial and industrial undertakings. The independence of the foreign banks was also ihreatened by the scheme, first to nationalise them and then incorporate them in a new import/export banking corporation outside their control. In the end, it was the government threat to individual liberty and its measures to control the press that raised enough opposition to bring about the downfall of the government. The forthcoming elections are expected to be hard-fought and close but in Ceylon, with its proliferation of political parties, final alignments can mean more than votes.

No matter which party wins the election it will face a formidable task in getting the country onto its feet. From the outset it will lose control unless it is prepared to stand up to the left-wing and restive trade unions. Food subsidies should be cut in an effort to balance the budget, for in what must be one of (he highest taxed countries in the world, there is no further scope for raising additional revenue from business and (he businessman. All this too has to be done before opposition in the country again grows from the legacy of shortages, rising prices and an over-expanded bureaucracy.

Externally too the prospects are equally depressing for Ceylon's foreign exchange reserves are too near the point of exhaustion to give any leeway. The last government signalled the position very clearly when it took the drastic and perhaps unethical, even unwise, step of declaring a moratorium on the remittances of profits and dividends. Clearly some of Ceylon's creditors, perhaps rice suppliers like Burma and China, were pressing the country for overdue payments or were restricting credit.

This picture could brighten quickly and considerably if Ceylon should rind itself with a government determined to eschew politics and work wholeheartedly for the restoration of the economy, for such a government would gain the confidence and goodwill of its people and of the outside world and Ceylon's friends would then give the help that cannot be justified when a country has set its course counter to its own interests.

Following the Prime Minister's visit to Delhi for talks on the vexed question of the future of residents in Ceylon of Indian origin, it was agreed that five-hundred-and-twenty-thousand of these would be taken back to India and that Ceylon would absorb three-hundred-thousand and grant them citizenship. This programme of repatriation is to be phased over a number of years and although a good start has been made the success of this scheme will depend very much on continued good faith and cooperation on both sides.

There will be widespread sympathy for Ceylon and for those who suffered in the cyclone which struck the north and the east of the island in December and severely damaged the port of Trincomalee.

Conclusion

This review covers an area which must figure large in all future plans for increased international trade and the recent crisis in sterling has not only shown the importance of that currency to world trade but has emphasised that Britain's own share of it must be maintained and if possible increased.

A greater awareness of this on the part of our government has seen a quick implementation of some of the recommendations of the Plowden Report and a tremendous export drive includes directive to the Diplomatic Service to concentrate *on* commercial work and helping the visiting businessman. With respect, I would say that in many ways the British overseas banks can be even more helpful for they have usually closer associations with and deeper roots in the countries where they operate. They have a specialised knowledge of local business, and of the credit-worthiness of local businessmen and firms, many of which are already customers.

Our interested ministries could, therefore, with advantage make more use of the vast branch networks at the disposal of the British overseas banks, and should in any case work closer with them in the area of their operations. Too often banks like ourselves are left out of and not even consulted about the financial side of trade arrangements, which is in marked contrast to what happens in other countries. Governments abroad realise fully the contribution their overseas commercial banks can make to invisible exports and national business is passed through them and national funds placed with them. In this respect perhaps it is time our Treasury dropped outmoded rules and prejudices and worked more along the lines of the United States.

Finally, I would like to stress another reason for our government fully supporting the British overseas banks in business and in all their difficulties. The friendship and respect existing over the years between our officers and businessmen and officials has helped to insulate sterling in those countries against precipitate action through loss of confidence in it arising from exaggerated utterances of politicians or the ill considered writing of economists. If there are branches of banks like ourselves in a country enquiries regarding sterling usually come to us and fears can be assuaged—but when we have been forced out of a country direct action by the authorities without consultation is likely to be taken to the detriment of our currency.

AROUND BOMBAY MARKETS

Indecisive Mood

Wednesday, Morning

DALAL STREET struggled hard last week to push its way up but could not make any significant headway. While technical considerations favoured recovery, neither were the bears anxious to cover their sales nor were bulls inclined to lend fresh support to the market in view of the disquieting news from the border areas. And political uncertainty was not all that the market had to contend with. Shri B R Bhagat had ruled cut any modification in the dividend tax on the rather flimsy plea that it would encourage frittering away of corporate profits. The Prime Minister told the FICCJ session that there was no alternative to heavy taxation. Soon came the Finance Minister's statement which cautioned against any hope of modification of his Budget proposals in respect of the corporate sector; T T KSaid that current tax revenues from the corporate sector would not be sacrificed for the purpose of giving tax concessions.

Political uncertainty and responsible official statements discounting prospects of the much-sought: after relief in corporate taxation could have easily given a big jolt to the market. But since it had already been completely shaken-up, the market absorbed the new shocks with amazing calmness. Though a few scrips like Indian Dyestuff and Standard Mills did strike new lows, the market as a whole managed to keep above the previous week's low point

The Finance Minister Krishnamachari did not merely caution against any *hope of* modification of his Budget proposals but he also made some other observations which indicated that he did not care much for the slock market. While conceding that the stock market had a part to play in "this semi-capitalistic society of ours" he was quick to add that if ir did not function, other institutional substitutes would have to be found. In the context of an economy of the size that existed in the country, in terms of money the amount of scrips available in the share market was negligible.

While informed opinion is inclined to share T T K's view that the stock market is not really so important as it is generally made out to be and that if is not an indicator which gives the real estimate of prosperity of the economy, there is a great deal to be said in favour of modifying the Budget proposals in a way which would give a psychological boost to the market without any significant loss to the exchequer. Suitable modifications of the dividend tax and the capital gains tax could go a long way in improving the investment climate in the country.

COTTON

A Big Change

A SIGNIFICANT change has *some* about in the situation obtaining in the cotton market. Excepting Bengal Deshi which has been keeping remarkably firm on keen export buying, the prices of other cottons have continued to drift lower. Several varieties which once fetched fancy premiums are now available at or below the ceilings and some varieties where quality is not up to the mark are quoted more than 5 per *cent* below the ceilings — the level at which the Indian Cotton Mills' Federation stands committed, on its own accord of course, to lift all the cotton that might be offered to it during the season.

Farmers, traders and merchants who had been sitting tight on their stocks when prices were quoted well above the statutory ceilings — the price control notwithstanding — are now anxious to market their goods below the ceilings and are even critical of the authorities for not coming to their rescue. If cotton prices have declined below the ceilings it is not due to any firm action taken by the Government to enforce the pries control order. The fall in prices is due partly to the Federation's scheme of controlled purchases of cotton by mills, but mainly to the acute financial stringency and increased flow of arrivals with the progress of the season. Crop estimates winch had revised downward with every rise in prices are now being revised upward with the decline in prices. Even after the cotton crop had gone beyond the reach of the weather, it has been varyingly estimated between 60 lakh bales and 54 lakh bales and the latest estimates place the crop around 57½/58½ lakh bales. One really wonders whether the crop estimates are at all dependable.

Concern Unwarranted

Serious concern has been expressed by cotton growers and traders over the recent decline in cotton prices. It is quite natural for growers and also for traders to ieel uneasy at any fall in prices because of the depreciation in *the* value of their stocks. But surely, one cannot expect the crop to be marketed at the ceiling rates which cotton growers have begun to regard as virtual floor prices. Unless it is argued that the ceiling prices compare unfavourably with the prevailing prices of other agricultural commodities, a decline of 10 to 15 per cent below the ceilings should be regarded as a normal phenomenon and it should in fact be welcomed even for the healthy functioning of the market.

The controversy regarding Cambodia cotton continues and with prices registering a further substantial decline, the controversy has assumed more serious proportions. The Federation's insistence that the cotton should be surveyed by the EICA sworn surveyors, that their verdict in regard to appropriate ceilings should be final and further that the offer to sell must be a firm one, has been characterised by traders and growers as an attempt to implement monopoly purchase through the back-door. But if the trade is really anxious to dispose of its cotton at 5 per cent below the ceilings which virtually amounts to selling at the ceilings since the trade is saved the burden of carrying stocks with it, there is no reason why it should not abide by the Federation's terms; the verdict of EICA sworn surveyors ought to be regarded as final. Presumably to pacify the discontented growers and traders, the Federation has sent its representatives to Saurashtra *to* purchase some quantity of Cambodia cotton the prices of which had declined sharply in recent weeks. It is also considered likely that the Federation may consider the question of relaxing the present limits on cotton stocks to be held by the mills.

OILSEEDS

Steadier Sentiment

OILSEEDS prices last week hardened still further mainly in the hope of an imminent announcement about the export policy for vegetable non-essential oils. That the Government will permit free export of vanaspati and also release anything between 20,000 and 35,000 tons of groundnut oil for export is taken almost for granted. Prospects of a limited quota of groundnut HPS are also believed to be fairly promising. While the Government is still marking time for a favourable opportunity for announcing the export policy, considerable purchases of groundnut oil are reported to have already been made in anticipation of an export quota. With the emergence of good buying, sellers have become reserved. Groundnut oil ready has been remarkably steady between Rs 21 and Rs 21.50 (per 10 kgs) for some time. Prices of other oils — mustard oil and linseed oil — have also firmed up recently. It is difficult to say how exports, when allowed, will fare because a great deal will depend on the incentives scheme and the tax credit for exporters.

CAPITAL VIEW

Foreign Relations in a Tangle

Romesh Thapar

THESE days there is a smell of death at the Ministry of External Affairs. It has a full time minister now—that is, when he is not involved in something else. Conferences or meetings of experts and department heads seldom take place. Visitors oat in and float out, none the wiser about what India thinks or feels. Bureaucrats, accustomed in the old days to take orders from the top, to roe the Nehru line, satisfied that they were being pushed in some direction, sit in explosive silence as one sector or another of a policy carefully built up cracks, as it were, under the weight of indecision.

Among those who are still interested in foreign policy, the talk is general that we have managed with an extraordinary demonstration of humility and patience—and silence *(sic!)*—to confuse and bewilder our closest friends. Despite the polite noises made m public, both here and abroad, about India's role and mission, the opinion offered the other day in a private conversation by a hard-boiled, cynical foreign policy planner captures the real agony: "What's he (the Foreign Minister) waiting for? A foreign expert?" The preparation deadline of the Algiers Afro-Asian Conference approaches, and we are doodling over cashew-nuts and cups of coffee.

With the USA merrily testing her napalm bombs and gas warfare techniques against the Vietnamese, and the Soviet Union getting angrier and angrier at what appears to be a deliberate attempt to wreck the possibilities of a *detente* at a time when China is working overtime in the communist world to mobilise support for her no-compromise stand in international affairs, we have been content to remain more or less silent because we wishfully believe that China is being hurt in the process. This assessment is so puerile that even the western experts who in their own interest persuaded us to remain silent are amazed at our gullibility.

The lazy doodling at the higher echelons of the Ministry of External Affairs is not only helping to buttress the Maoist thesis that India is no longer the ally of Asia and Africa, but is placing a severe strain on our alliance with the Soviet Union—an alliance which in the past strengthened the independent role of our foreign policy. It is no exaggeration to state that the impression prevails in Moscow that just as Pakistan is moving away from her embarrassing commitments to SEATO and CENTO, India is permitting herself to wander, absent-mindedly maybe, into the western camp. The polite, propagandist talk in public can no longer hide this fact. And there are misunderstandings with the Arabs.

New Trends Not Understood

That this *is* happening at a time when there is more need than ever before for India to work closely together with the Soviet Union and the Arabs is inexplicable, unless, of course, we reach the conclusion that Prime Minister Lai Bahadur and Foreign Minister Swaran Singh are unable to understand the trends now taking shape in the world.

The nationalist-chauvinists who rule China have decided to intensify their so-called ideological confrontation with the Soviet Union. They have made clear that they would risk a widespread conflagration in South-East Asia in order to defeat the US interventioning physically rather than permit them a face-saving retreat *via* a Geneva-type conference. They have, by this fact, indicated that their present policy *is* dictated by the desire firmly to consolidate a Communist Vietnam as a stepping stone into regions further south where Malay tight s Malay. Having blunted the influence of India, China moves to humble the rising influence of the Malay whose homelands cover Malaysia, Indonesia and even parts of the Philippines. Then, China dreams of being the only influence in Asia.

The adventurist Maoists have found themselves an useful ally for their operations against a stubbornly viable-India. Ayub's Pakistan, according to information reaching New Delhi, plans to step up its border activities against India. Over the past few weeks, we have faced concerted attempts in the west and in the east to create a limited confrontation. Indeed, there are some students of Pakistani developments who believe that Mao may well encourage Ayub to push for military settlements at various points along the border very much in the style adopted by China from 1959 to 1962. Anyhow, it would do us no harm always to keep this in mind.

To counter these moves and to correct the growing impression in Asia and Africa that we are exploiting our frontiers with China in order to squeeze economic and military aid nit of the West, and hence are impotent in the battle against foreign intervention and neo-colonialist activity in Asia and Africa, it is imperative that we lose no time in explaining to the governments and peoples of Asia and Africa our position with regard to immediate and perspective tasks. We