BRITAIN

'Dr. Strangelove' prescribes treatment for British industry

As outlined in the Queen's Speech last week, Thatcher's new Tory government is preparing to lower the broom on British industry. The new house-cleaning measures will be directed toward "triaging" large sectors of Britain's remaining civilian manufacturing capacity and defending only a narrowed base of militarily relevant high-technology industry.

Under the new regime, a small portion of the economy—the strategically crucial military-economic sector—will be set aside and buttressed, while the rest of the British economy and the population it supports are set adrift to rot. This delicate surgical exercise will be performed by Industry Minister Sir Keith Joseph, an associate of the Mont Pelerin Society, who has already been dubbed the "Dr. Strangelove of the economic world" by outgoing Prime Minister Callaghan.

Sir Keith is looking for savings of hundreds of millions in subsidies to "lame duck" industries; the money has already been budgeted for increased defense spending—raising the pay of Britain's top military officers, buttressing the Royal Air Force to defend U.K. airfields "in time of tension or war," and financing a new generation of nuclear weapons, for instance. This was implicit in the Queen's Speech, which pledged the Tory government to "maintaining the strength" of Britain's independent nuclear deterrent. Britain's new Defense Secretary Francis Pym told a NATO gathering in Brussels last week that the U.K. attached primary importance to the modernizing of NATO's nuclear force in Europe, and Thatcher "volunteered" Britain as a launching pad for missiles targeted at the Soviet Union in her two-day meeting with West German

TRADE

More geopolitics in new China trade deals

The Carter Administration and the People's Republic of China have rushed through a bilateral trade pact in an effort to head off closer moves toward economic and diplomatic cooperation between Western Europe, Saudi Arabia, and the Soviet Union. The pact, which Mrs. Kreps initialed May 14 while in Canton province, adjacent to Hong Kong, would put China on a "most-favored-nation" basis with the U.S. It would allow a major influx into the U.S. of coolie-labor-produced consumer goods, including sporting goods, small transistor radios, hand tools, textiles, and illegal narcotic drugs (the latter to be smuggled in on Chinese merchant ships).

U.S. government officials on Mrs. Kreps's China mission are paraphrased in the May 15 *Journal of Commerce* as admitting that the pact "took some 11 days to negotiate, an unusually short period of time for a trade agreement with a Communist country." Ironically, the Administration may not send the hurriedly assembled pact to Congress for many weeks, so as to retain it as a blackmail lever over the Soviets following the signing of a SALT accord.

The geopolitical motivation of Mrs. Kreps's pact is underlined by insistent coverage in the U.S. press as to how limited China's capacity is to absorb major capital and capital goods inflows—i.e., that something besides economics is at stake. This

Chancellor Schmidt just days after the election.

As part of the Tory war effort, state sector industry will be auctioned off to pay for defense of the realm. Legislative proposals outlined in the Queen's speech will enable the government to offer "unprofitable" portions of the nationalized shipbuilding and aerospace industries for sale to private enterprise. The activities of the National Enterprise Board, set up in 1975 to bail out ailing manufacturing plants with state subsidies, will also be curtailed. Capital grants for regional development, schemes for machine tool stockpiling and British Steel programs will also face the ax.

Although Keith Joseph has made Adam Smith's *The Wealth of Nations* required reading for his staff at the Industry Department, several economic analysts have already warned that Thatcher's government may be unable to combine the "Cobden Club" free enterprise policies with the promised defense buildup. The Tory faction represented by the Bow Group, of which Thatcher's Chancellor of the Exchequer Geoffrey Howe is a former chairman, has just put out a pamplet urging that the National Enterprise Board's powers be extended rather than curtailed to "re-structure" old industries and encourage new "high technology" developments with the help of revenues from North Sea oil. The NEB, however, should be shorn of its job of helping small companies, boosting exports and encouraging regional development. Instead it should act as a "short-term cash generator," providing equity and loan capital for "strategic industries," such as those devoted to research and development in "high risk" technologies, say the Bow Group authors.

Thatcher's advisors will probably end up taking their cue from Winston Churchill, who first brought strategic sectors of the economy such as oil under state control, if her war policies are to have any degree of success. The "military, aerospace, and high technology" lobbies are very much alive in Britain, noted *Financial Times* columnist Samuel Brittan, and, allied with the Defense Lobby," they will pose the first threat to Thatcher's "free enterprise" promises.

The expected "U-turn" in Tory policies which futurists such as Enoch Powell predicted may already be taking place. Thatcher has appointed computer software expert Mr. John Hoskyns to head up her private "think tank," the Central Policy Review Staff. Government sources have denied that Hoskyns was brought in to bring his knowledge of the computer industry to bear on the future of INMOS, the micro-chip industry set up and supported by the National Enterprise Board whose role the Thatcher government will now want to evaluate very carefully.

—*Marla Minnicino*

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message starkly contrasts the line the same organs were emitting five months ago, when China was being trumpeted as the world's miracle growth market. *Sic transit gloria emptorum.*

French issue capital goods loans

There are other angles besides the U.S. one. Within days of the Kreps deal, the Chinese settled terms with both the French and Japanese, resulting in the issuance of multi-billion dollar loans and lines of credit by those two countries to China. Oligarchical circles in alliance with Peking are hoping that Chinese trade relations will lure France and Japan away from a nascent Western European-East bloc-Saudi bloc committed to industrial development. France, through a guarantee by the government export finance agency COFACE, has just issued to China the largest line of credit in French history—a whopping $6.9 billion for purchase of French capital goods, should the Chinese care to draw on it. The credit was issued under the provisions of a seven-year bilateral cooperation agreement concluded last December. The agreement foresees an eight-fold increase in trade between the two countries (to FFr 60 billion) by 1985. So far, the Chinese have placed orders for two nuclear plants (a FFr 10 billion contract).

Within a matter of days following the French credit came the announcement of a $10 billion Japanese loan to China. Two billion dollars of that sum will be issued by the Export-Import Bank of Japan at the unusual concessional interest rate of 6.25 percent and used to finance oil and coal development projects in China. The remaining $8 billion in loans (issued by large Japanese syndicates headed by the Bank of Tokyo) are basically refinancing loans.

The loan for Chinese coal and oil development suggests that the Japanese have "back-burnered" the more important, long-standing proposal for joint Soviet-Japanese (and Western) development of the raw materials of Siberia.

—*Richard Schulman*