Intra-Commonwealth trade

The three main components of intra-Commonwealth trade, have been the exports of Commonwealth countries to Britain, the imports of British goods by these same countries, and the cross trade of Commonwealth countries other than Britain with one another. This last segment has often been influenced by historical relationships or geographic propinquity. For example, the trade of Commonwealth Caribbean countries with each other and with Canada arose out of the British connection and the natural complementarity of the trade in sugar and other tropical products in one direction against forest products, salt fish etc., in the other direction. Many of these relationships either have been, or are being, superseded by a new set of relationships reflecting the current interests of the countries concerned—with mixed results for intra-Commonwealth trade. But it is the trade to and from Britain that still accounts for some two-thirds of the total of intra-Commonwealth trade, so that any analysis of the declining proportion of intra-Commonwealth to total Commonwealth trade—as shown in Table 3—must start from this point.

TABLE 3

INTRA-COMMONWEALTH TRADE *a*

£ million

	1964	1965	1966	1967	1968*b*
Exports and re-exports from the Commonwealth:					
United Kingdom to other Commonwealth countries	1,249	1,335	1,297	1,219	1,390
Other Commonwealth countries to United Kingdom	1,478	1,435	1,431	1,366	1,614
Other Commonwealth countries to each other	1,144	1,188	1,172	1,241	1,426
(1) Total intra-Commonwealth	3,871	3,958	3,900	3,826	4,430
(2) Total to all countries	12,015	12,713	13,785	14,211	18,202
(1) *as percentage of* (2)	*32*	*31*	*28*	*27*	*24*
Imports into the Commonwealth:					
United Kingdom from other Commonwealth countries	1,706	1,673	1,590	1,574	1,792
Other Commonwealth countries from United Kingdom	1,295	1,419	1,349	1,267	1,507
Other Commonwealth countries from each other	1,102	1,118	1,144	1,218	1,459
(1) Total intra-Commonwealth	4,103	4,210	4,083	4,065	4,758
(2) Total from all countries	13,705	14,585	15,140	16,310	20,108
(1) *as percentage of* (2)	*30*	*29*	*27*	*25*	*24*

a Sum of individual country valuations.

b Actuals, or annual rates based on latest data.

Generally, the decline in the share of Britain in world trade leads to the supposition, which is borne out in fact, of a smaller proportion of exports from other Commonwealth countries finding a market in the United Kingdom, and of the latter being able to meet only a smaller proportion of their import requirements. Relevant data for individual countries in recent years are shown in Appendix tables II to IX. Special factors include the planned diversification of trade flows associated with development policies following independence, the effective decline of Commonwealth preferences, the emergence of European trade groupings, the industrialisation of Commonwealth countries, the influence on trade of the diminution in the international role of the London capital market and the growth of massive flows of official aid—most notably from the United States.

These considerations are still, collectively, a potent and pervasive influence, not least the continuing British desire to join the European Economic Community, which affects the intensity and direction of private marketing effort as well as the development of international trade policy. Since the passing of the U.K. Agriculture and Horticulture Act of 1964, which put limits to the extent of price guarantees and made provision for the imposition of import levies in certain cases, British agriculture has in fact been moving in the direction of greater compatibility with the managed market techniques of the common agricultural policy of the E.E.C. Fairly substantial levies were imposed on imports of certain cereals in 1968—when Britain was no longer bound to preserve a balance between home production and imports, having been able to drop the bilateral cereals agreements with main suppliers in the context of the Kennedy Round. Since the production of the national plan for agriculture in 1965, Government policy has aimed to provide additional incentives to expansion of production, particularly in wheat and beef. Devaluation in November 1967 brought a further evolution of the role of agriculture in import savings and just a year later it was forecast that the Government would enable the industry to save £160 million (at current prices) on imports annually by 1972-73. Though this would be an important marginal contribution to the British balance of payments, its effect on intra-Commonwealth trade would be largely confined to Canada, Australia and New Zealand. Not many years ago, Britain was the major world importer of wheat, with Canada and Australia as the major suppliers. The Indian sub-continent has surpassed Britain in this respect, but obtains the bulk of its supplies from outside the Commonwealth, while Eastern Europe and China have taken a substantial proportion of the export surpluses of Commonwealth producing countries. Furthermore, the Food Aid part of the International Grains Arrangement that emerged from the Kennedy Round, and similar possibilities that have been proposed in GATT for the elimination of dairy surpluses, all tend towards a further diversification of trade which was at one time focussed predominantly on the United Kingdom.*

The mutual trade of Commonwealth countries other than Britain does not in practice fall into neat regional categories, but regional influences (formal or informal) are strong here and there, especially in the Pacific (Australia, New Zealand, Canada, Hong Kong, Malaysia, Singapore), in East Africa (inter-territorial transfers between Kenya, Uganda and Tanzania) and in the Caribbean. Canadian relations with the Commonwealth Caribbean were formalized in the 1926 bilateral trade agreement with the then British West Indies, providing essentially for the exchange of tariff preferences. The Trade Protocol negotiated at the 1966 Commonwealth Caribbean-Canada Conference updated and revised the earlier agreement, adding specific provisions of interest to both sides, consultative provisions and an undertaking to examine the agreement with a view to its possible re-negotiation after the Kennedy Round.

Canadian exports to the Commonwealth Caribbean, of which over a third go to Jamaica alone, consist mainly of a very broad range of manufactured and semi-manufactured products, but foodstuffs (especially fish, flour and meats)

* Technical considerations exaggerate the trend. For example, it is now more economical to ship some Canadian wheat to London via Rotterdam, and this shows up in the statistics as British and Canadian trade with the Continent, not intra-Commonwealth trade. The present revolution in shipping and cargo handling facilities, the multiplication of local auction centres and commodity boards in producing Commonwealth countries, and the declining tendency of exporters to ship produce on a consignment basis to the London commodity markets, will all affect the presentation of statistics of overseas trade.

account for more than a fifth of the total value. Canadian imports from the Commonwealth Caribbean consist almost entirely of bauxite and alumina from Jamaica and Guyana, petroleum from Trinidad and Tobago, and sugar, molasses and rum from the same three countries.

In 1967 the Canadian Government initiated a system of special rebates to Commonwealth Caribbean sugar producers of the (preferential) duty, 0·29c. per cwt, on their sales—this rebate to be paid in respect of all shipments up to a volume equal to average imports in the five years to 1966. In effect, this meant that on a specified volume of sales to Canada, a maximum of 275,000 metric tons, the West Indian sugar producers would receive world free market price plus the amount of the Canadian m.f.n. tariff—$1·29 per cwt.

The East African Community replaced the East African Common Market under which the economies of Kenya, Uganda and Tanzania were gradually being integrated. Since 1950, and especially over the past six years, advances have been made principally by the expansion of cash crops for export, and by the growth of light manufacturing of consumer goods and some basic industries such as cement making and petroleum distillation. Regional intra-trade consists mainly of such items as soap, pyrethrum, clothing and blankets, beer and spirits, footwear, margarine, paints and brushes etc., paper products, iron and steel manufactures, cement and petroleum products—as well as wheat and dairy produce, and fruit and vegetables, from those parts of Kenya endowed with a suitable climate for their production. This intra-trade (other than transit trade), like that within the Commonwealth Caribbean and the trade between Malaysia and Singapore, comes up against the problem of maintaining a balance of industrial development within the region, and the success or otherwise attending the attempts to overcome this problem determines the relative growth or decline of this type of intra-Commonwealth trade.

The trade between Commonwealth countries of the Pacific is helped by some formal arrangements such as the Australia-New Zealand Free Trade Agreement, but this is of limited scope at present. Also, the bilateral preferences exchanged between Canada, Australia and New Zealand in the 1930's are of material assistance. But the one thing that has dominated trans-Pacific trade in the 1960's has been the extraordinary growth of U.S. trade associated, directly or indirectly, with the prosecution of the war in Vietnam. The United States is the main export market for Canada, and so Canadian trade has boomed. It is also the main market for Japan, which is in turn the chief export market for Australia. Hong Kong and Singapore are focal points in this interchange. Even New Zealand, whose trade is still predominantly oriented towards Europe, and whose wool suffered such a setback in the U.S. market in 1967, has made record sales of beef to the United States and many look to Japan for larger sales of mutton and skim milk powder if protectionist forces do not get the upper hand. So long as the world trade of these "Pacific" countries expands at a disproportionately fast rate, it can be expected that their intra-Commonwealth trade will do likewise. Rates of growth are, however, closely linked with the state of the U.S. economy.

Overlying the regional aspects of intra-Commonwealth trade are some of the general influences which apply equally to trade with Britain. These include the generality of Commonwealth preferences (tariff, quota or otherwise). Hong Kong is the classic case of a country which has been able to industrialise very rapidly as a result of preferred access to rich markets—chiefly Britain, of course, but to some extent also Canada, Australia and New Zealand. Hong Kong has increased its exports to Canada of clothing; prams, games and toys; woven cotton fabrics; wigs; and plastic flowers. There were increases in textile exports following the three year agreement between Canada and Hong Kong in October 1966. This set a quota of 11·09 million square yards. Canada has also introduced quotas on several finished clothing items and Hong Kong has followed with export restraints.

The story from the Canadian side has not followed the same pattern. Five years ago Canada enjoyed a slightly favourable balance of trade with Hong Kong. It was based largely on importation of polystyrene and polyethylene for the Colony's blossoming plastics industry. At that time Hong Kong was prepared to pay the higher Canadian price for its raw material so that it could benefit from Commonwealth preferences in Britain and other countries. But as Hong Kong manufacturers broke into the U.S. market and found acceptance for their plastics elsewhere, they soon turned to Japan's lower-priced raw materials.

As shown in Table 3, the proportion of intra-Commonwealth trade to total trade has fallen steadily, and at a historically rapid rate, from 1964 to 1968. A part of the explanation for this, but only a relatively small part, lies in the evolution and execution of international trade policy. The major part of the explanation, however, lies in the extraordinary growth of demand for imports in certain areas about which in consequence world trade has increasingly tended to polarize. These areas are the United States, the European Economic Community and Japan—all of which, as markets for Commonwealth countries, are considered in detail in following sections of this report. It will be sufficient here to note only that Canadian exports to the United States went up by over a quarter from 1967 to 1968, while British exports to that market rose by 43 per cent in terms of sterling. Because of the weighting of British and Canadian trade in total Commonwealth trade, these facts alone go far to explain (from a purely statistical point of view) the fall in the proportion of intra-Commonwealth to total Commonwealth exports—from 26·9 per cent in 1967 to 24·3 per cent in 1968.

To recognise that there are strong tendencies, in the development of the trade of Commonwealth countries, towards a diminution in the relative weight of the intra-Commonwealth component, is not to fall into the error of minimising the importance of the latter. Intra-Commonwealth trade is 5 per cent of world trade—and that amounts to a great deal. Structurally, about two-fifths of it represents the trade of Britain, Canada, Australia and New Zealand with each other, and about three-quarters of the remainder is accounted for by the trade flows between these four advanced countries and the developing countries of the Commonwealth.

United States

During the period from 1941 to 1957 the United States had an average annual deficit of less than $600 million, with a surplus of $5·2 billion for trade and services, a deficit of $6·6 billion for military and government transactions and a surplus of $800 million for capital. During the following ten years the trade and services surplus was only $2·6 billion, while the deficit for military and government transactions was $5·5 billion, and the capital account was barely in surplus. On an average, the deficit was four times greater than during the preceding period. After 1965, the surplus in the trade balance dropped continuously. Results for 1968 show a surplus of a mere $500 million (on a balance of payments basis), down $3 billion from the relatively poor showing of 1967 and down more than $6 billion from 1964. With imports going up by 23 per cent in calendar 1968, while exports rose only 9 per cent (which was itself better than usual), the crude surplus of exports minus imports fell to $726 million—the lowest since 1937—compared with $4,122 million in 1967. Imports as a proportion of gross national product rose to 3·8 per cent, the highest since the second World War. Against this background it was not surprising that certain protectionist tendencies asserted themselves.

On 1 January 1968 the President announced a stiff programme to improve the U.S. balance of payments. The month was not far along before an outflow of funds from Canada, widely attributed to subsidiaries of U.S. companies, commenced. It gained momentum and on 18 January the Canadian dollar fell in New York to its lower intervention point of 91·75c. (U.S.), at which level it had usually been supported by the Bank of Canada. Bank rate was raised to 7 per cent. Canada drew on its swap arrangement with the Federal Reserve System and the IMF. In March it was announced that the U.S. would exempt Canada from all restraints on foreign investment under its balance of payments programme, and that stand-by credits aggregating $U.S. 900 million had been made available to Canada from U.S. and European financial institutions. Recovery set in and by August the Canadian dollar was so fully restored to health that it was pushing the country's foreign exchange reserves hard against the official ceiling (set originally in 1963 under the Interest Equalisation Tax Exemption Agreement). Tourist spending in Canada was well up, exports were running about 15 per cent above the previous year's level and the visible trade surplus, January to July, was $641 million compared with $201 million in the corresponding period of 1967. By January 1969 the Trade and Commerce Minister was able to announce that Canadian export growth in 1968 was in absolute terms the largest ever achieved and in percentage terms the largest since the Korean war. Exports had reached $13,574 million, an increase of over 19 per cent on 1967. Exports to the United States alone had risen 25 per cent to reach $9,218 million.

At about the same time it was announced that the U.S. balance of payments programme had been so successful that, in spite of the very poor trade balance, a $150 million payments surplus on a "liquidity basis" had been provisionally recorded for 1968—the first surplus on this basis since 1957.* On an official settlements basis a huge surplus of $1,700 million was reported by the Treasury, but this method of accounting is influenced by, for example, formal considerations regarding the composition of Canadian reserves. It was announced in January 1969 that, by informal understanding between the United States and Canada, the "reserves target" figure would be dropped.

Behind the remarkable turnround in the U.S. balance of payments were a number of special considerations, including the fact that the major infrastructural buildup for the war in Vietnam had been completed early in 1968. But the swing came in the capital accounts and these could not fail to have been influenced by the weakness of the dollar at the time of sterling devaluation followed by a progressive strengthening as events in Europe and the Middle East, including the Czech scare and the Franc crisis, clouded the outlook for European currencies.† Special factors also influenced movements in the trade balance, but in the other direction. These included the long-drawn out copper strike and heavy buying of foreign steel as a hedge against possible steel and dock strikes. These, however, only accentuated a trend already in evidence, as with rising costs leading to higher prices U.S. products were becoming steadily less competitive at home and abroad. Inflation in the United States grew faster in 1968 than at any time since the Korean war, and at year's end the overall unemployment rate was 3·3 per cent, the lowest for fifteen years. Because of the close industrial and financial symbiosis between the United States and Canada, inflation was also one of the chief economic problems in the Dominion.

British exporters took advantage of their opportunities in the U.S. market. In 1968 British exports to the United States increased by 43 per cent in sterling,

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* Later amended to $190 million.

† There was also a last-minute rush by businesses, according to the U.S. Department of Commence, to bring capital from abroad by the end of the year to keep in line with temporary Government controls.

TABLE 4

EXPORTS FROM THE COMMONWEALTH TO THE UNITED STATES

£ million

	1964	1965	1966	1967	1968a
United Kingdom	429	521	652	639	909
Canada	1,471	1,668	2,066	2,428	3,553
Australia	99	114	142	139	202
New Zealand	51	43	62	56	86
India	107	112	108	91	122
Pakistan	12	17	25	27	37
Ceylon	11	11	10	10	10
Malaysia	48	65	56	61	83
Singapore	12	13	17	28	43
Hong Kong	80	113	134	165	249
Ghana	24	18	14	8	27
Nigeria	14	26	26	19	16
Uganda	18	14	17	14	21
Jamaica	27	29	31	32	38
Trinidad & Tobago	43	46	57	68	82
Other Commonwealth	41	43	41	49	65
Total	2,487	2,853	3,458	3,834	5,543

a Actuals, or annual rates based on latest data.

almost all categories of goods making notable advances. There was a near quadrupling of exports of aircraft engines, (to be incorporated in military aircraft being purchased by the United Kingdom). Shipments of iron and steel, and of non-ferrous metals (comprising mostly copper and silver) went up by 71 per cent and 55 per cent respectively. Exports of whisky and non-electrical machinery rose by two-thirds while rises of about a third were shown by chemicals, electrical machinery and textile products. Sales of British cars also mounted during the period, by a third in terms of sterling.

The Canadian export performance in the U.S. has already been mentioned. Deliveries of passenger cars, and trucks, buses and chassis, from U.S. subsidiaries in Canada registered another strong increase, but the rate of growth was substantially lower than in 1967. On the other hand, shipments from these plants of automotive parts and accessories rose at an accelerated pace in 1968. Deliveries of aircraft—mainly small twin-engine and rebuilt planes—rebounded after a sharp drop in the previous year. Among other Commonwealth countries important gains were scored by India and Pakistan, by Australia and New Zealand (mainly beef), Malaysia (mainly tin and rubber), Hong Kong (mainly wearing apparel and transistor radios), Ghana (mainly cocoa), and Zambia, which increased its copper exports owing to strike-hedge buying in the United States and shortage of Chilean supplies. All in all, aggregate exports from the Commonwealth to the United States increased by about a quarter.

Among Commonwealth countries that failed to show any very marked gains in the U.S. market in 1968 was Ceylon. In fact exports from Ceylon to the United States fell, mainly as a result of the commodity composition of its trade, which is dominated by that sterling commodity, tea. By way of contrast, dollar sales to the U.S.A. from Hong Kong, aided by progressive liberalisation of textile quotas, rose to a level almost three times higher between 1964 and 1968. The Indian devaluation of June 1966 showed signs of producing results, and in 1968 the dollar value of exports to the United States rose by a sixth—to a level, however, still not significantly higher than that of 1964. The Indian export list to the U.S.A. is extraordinarily varied, but is dominated by jute manufactures—

chiefly burlap, jute bagging and gunny cloth. As shown in Appendix Table XII, U.S. imports of jute manufactures from India have fluctuated around $U.S.150 million annually from 1964 to 1968, with no obvious tendency to growth.

TABLE 5

IMPORTS INTO THE COMMONWEALTH FROM THE UNITED STATES

£ million

	1964	1965	1966	1967	1968a
United Kingdom	651	672	723	812	1,063
Canada	1,694	1,998	2,359	2,652	3,484
Australia..	249	269	280	306	414
New Zealand	33	42	40	35	43
India	398	371	356	385	359
Pakistan	148	140	94	129	130
Ceylon	4	4	6	8	12
Malaysia	21	23	24	25	32
Singapore	22	22	24	28	47
Hong Kong	61	62	68	88	119
Ghana	11	14	21	18	22
Nigeria	29	33	42	28	29
Zambia	4	7	14	16	31
Malawi	—	1	1	1	1
Jamaica	31	33	43	49	61
Trinidad & Tobago	21	29	23	25	25
Other Commonwealth	79	85	97	112	123
Total	3,456	3,805	4,215	4,717	5,995

a Actuals, or annual rates based on latest data.

On the side of imports, the value of inward clearances by Commonwealth countries from the United States, in terms of dollars, rose only by about a tenth in 1968. This was in line with the expansion of U.S. exports to the world as a whole. The major increases were recorded by Canada, Britain, Australia and Hong Kong respectively, rises and falls among the remainder being evenly matched.

European Economic Community

On 1 July 1968 the member countries of the European Communities completed the formation of a customs union and brought under a common agricultural policy, based on common prices, common import and export regimes and Community financial support, all the main agricultural commodities entering their mutual trade in domestic produce. A common market for milk and dairy produce and for cattle and calves had been scheduled to come into being in April 1968, but agreement on the terms was not reached until late May for implementation on 1 July. On that date also, unified markets for sugar and tobacco, flowers and ornamental plants came into being, thereby making the common agricultural policy practically complete.

As with other major agricultural commodities produced in the Community, the two parts to the management system for sugar are common marketing and common prices. The first stage of common marketing started on 1 July 1967, and common prices started from 1 July 1968, together with comprehensive marketing, but certain transitional provisions will continue until 1975. Since the CAP applies to Reunion, Martinique and Guadaloupe—three sugar-producing islands which are legally part of France—the managed marketing system has to extend to the cane sugar production of these islands as well as to the beet production of Europe.

The form of the marketing system for sugar is basically similar to the pattern of domestic and frontier (and port) controls operated for the other major agricultural commodities in the Common Market, with one important exception. In the case of sugar there were fears that such open-ended arrangements might produce unmanageable surpluses with consequential heavy costs to the Community's Agricultural Fund. Accordingly, superimposed on the standard marketing system are quota arrangements. If these quotas are exceeded, then according to the amount of the excess, the support from Community funds is either reduced or eliminated. Quantities of sugar manufactured in excess of 135 per cent of basic quotas must be sold outside the Community without any export subsidy.* Between 1968–69 and 1975 the overall Community quota for white sugar is 6,480,000 metric tons a year. This figure is some 13 per cent higher than the average production of recent years but is held to be in line with production expectations and consumption trends in Common Market countries.

E.E.C. participation in the UNCTAD negotiations leading to the new International Sugar Agreement of 1968 was adversely affected by questions of formal status, but as it eventually transpired, non-participation by the E.E.C. countries in the final Agreement turned on the size of the quota. An export quota of 300,000 tons had been offered to them as against the 1,200,000 tons they were seeking. If the Six remain outside the International Sugar Agreement (and it has been hoped that this will not be so for long) they will not be bound by the I.S.A. floor price. Thus it was thought possible that E.E.C. surpluses would pose a serious threat. However, the participants to the Agreement, of which the most important non-preferential importing country is Japan, undertook to limit their imports from non-participants to a level not exceeding their average for the period 1966–68, or to nil if world prices fell below 3·25 c. per lb.

In December 1967 the Council of the European Communities formally approved extension for eighteen months, i.e. until the expiry date of the Yaoundé Convention, of the tariff suspensions for tea, maté, tropical woods, certain spices and some sports equipment—measures to assist in particular some exports of India, Pakistan and Ceylon.

E.E.C. exports increased in value by 14 per cent in 1968 and imports by 13 per cent. After a moderate increase of exports from West Germany in the first half of the year there was a rapid acceleration in the third quarter and the rise continued into the fourth. The strong recovery of domestic activity entailed also a marked expansion of imports, particularly in the second half of the year. After rising rapidly at the beginning of the year exports from France fell sharply because of the stoppages in May and June, but later made a vigorous recovery. In July a rapid growth of exports was maintained, but for the year as a whole imports rose by only 6 per cent.

Aggregate exports from Commonwealth countries to the E.E.C. in 1968 resumed their growth after falling in the preceding year due to depressed conditions especially in West Germany. However, the pace of advance was impeded by the restrictions imposed by France and operating roughly throughout the second half of 1968. British exports of cars, in particular, were adversely affected as a result. The dollar value of British exports to Community countries as a whole increased by 7 per cent. Exports from Canada went up by a tenth, while those from Australia to the E.E.C. showed no marked change in terms of

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* It should not necessarily be assumed, however, that this would limit expansion of cane production in the French Departements, especially at higher world prices contemplated under the International Sugar Agreement.

TABLE 6

EXPORTS FROM THE COMMONWEALTH TO THE EUROPEAN ECONOMIC COMMUNITY

£ million

	1964	1965	1966	1967	1968*a*
United Kingdom	963	982	1,045	1,042	1,291
Canada	187	210	213	227	294
Australia..	155	153	165	150	173
New Zealand	66	61	58	38	42
India	45	41	43	38	59
Pakistan	24	27	35	27	73
Ceylon	12	12	10	10	13
Malaysia	46	46	46	39	49
Singapore	17	19	22	24	39
Hong Kong	31	40	47	43	50
Ghana	34	32	21	20	34
Nigeria	77	96	101	96	82
Zambia	52	57	84	63	89
Malawi	1	1	2	2	2
Trinidad & Tobago	15	14	14	9	6
Other Commonwealth	75	84	85	58	74
Total	1,800	1,875	1,991	1,886	2,370

a Actuals, or annual rates based on latest data.

TABLE 7

IMPORTS INTO THE COMMONWEALTH FROM THE EUROPEAN ECONOMIC COMMUNITY

£ million

	1964	1965	1966	1967	1968*a*
United Kingdom	941	995	1,104	1,264	1,567
Canada	134	170	182	207	256
Australia..	113	138	136	154	191
New Zealand	20	23	24	26	25
India	121	156	128	127	136
Pakistan	62	82	61	70	78
Ceylon	16	13	17	20	18
Malaysia	32	38	36	35	40
Singapore	26	29	32	36	46
Hong Kong	45	48	49	53	71
Ghana	28	34	27	22	25
Nigeria	59	68	68	58	64
Zambia	4	8	10	19	23
Malawi	1	1	2	2	2
Kenya	14	15	21	23	28
Other Commonwealth	88	106	112	107	123
Total	1,704	1,924	2,009	2,223	2,693

a Actuals, or annual rates based on latest data.

dollars. The dollar value of exports from New Zealand edged down slightly after the big drop in the previous year owing to the fall in the wool market. This was the fourth year running in which exports from New Zealand to the Community had registered a setback. Exports from India, Pakistan and Ceylon all showed a favourable movement but, as was the case in the U.S. market, only Pakistan showed a really sizable gain comparing 1968 with 1964 in terms of dollars. Exports from Hong Kong held steady after the fall in the preceding year, while those from Ghana showed a strong revival. Nigerian exports to the E.E.C. slumped heavily for obvious reasons while Zambia, which normally supplies about a quarter of the copper requirements of the Community, did well.

Total imports of Commonwealth countries from the European Community continued their regular advance in 1968 but in terms of dollars the rise was less than half that of the expansion from 1966 to 1967. The increase in the British and Canadian figures was proportionately greater than for most other Commonwealth countries, among which the declines matched the rises.

European Free Trade Association

The European Free Trade Association was deemed from its inception to be a temporary grouping which would enable its members to achieve some of the aims, such as tariff demobilisation, which were held in common with the European Economic Community, but which could not be pursued from within the latter until the evolving situation rendered it possible. But though its articles of association envisioned its own demise, time and the seeming remoteness of its ultimate objective of a wider European grouping, combined with a sense of achievement, have given it a more permanent look and a momentum of its own. Its immediate target—the achievement of free trade among its membership in goods classified as "industrial"—was reached ahead of schedule on 1 January 1967.

According to a study entitled "The Effects of EFTA on the Economies of the Member States," published in 1968 by its Secretariat, the abolition of industrial tariffs and the reduction of other trade barriers within the Association had led to an estimated increase in the seven members' trade amounting to $830 million by 1965. Of this, $457 million was estimated to have been due to the switching of trade away from non-members (trade diversion), while the balance of $375 million represented an upward shift brought about in world trade (trade creation). About a quarter of the total increase in intra-EFTA trade between 1959 and 1965 was attributed directly to the Association. From studies of individual countries it appeared that Britain's balance of trade in 1965 benefited to the extent of $190 million. The U.K. trade balance effect was by far the largest among the member countries, more than 40 per cent of the net export effect for all EFTA countries. The largest effects on British exports were to be found in metals and engineering products and, on imports, in pulp and paper.

Portugal recorded the greatest effect on exports, measured as a percentage of the rise from 1959 to 1965 in both total exports and exports to EFTA. No less than half the increase in exports to other member countries during this period appeared to have been due to the creation of the free trade area. The export effect on Portuguese trade was almost entirely concentrated on textiles, while about three-quarters of the import effect covered metals and engineering products.

Trade of the Continental EFTA countries rose considerably less rapidly in 1968 than that of the E.E.C. in spite of a relatively fast growth in intra-EFTA trade: exports went up by 10 per cent and imports by 6 per cent. Norway and Switzerland improved their balances of trade, but there was little change elsewhere.

TABLE 8

EXPORTS FROM THE COMMONWEALTH TO CONTINENTAL MEMBERS OF EFTA

£ million

	1964	1965	1966	1967	1968*a*
United Kingdom	575	613	684	706	803
Canada	50	55	68	58	81
Australia..	9	11	10	12	11
New Zealand	4	4	4	4	4
India	8	7	6	7	8
Pakistan	3	4	4	4	7
Singapore	2	2	2	7	8
Hong Kong	12	13	15	22	24
Zambia	5	8	14	14	20
Jamaica	5	7	7	9	9
Trinidad	6	10	11	12	19
Other Commonwealth	29	33	23	18	31
Total	708	767	848	873	1,025

a Actuals, or annual rates based on latest data.

With industrial free trade having been achieved among EFTA countries, other than the associate member Finland, on 1 January 1967, the momentum of relative expansion in intra-EFTA trade would have been expected to slacken from 1968 onwards. And as it happened, British exports to the continental members of the Association, in terms of dollars, showed no appreciable movement in 1968, mainly as a result of a heavy drop—amounting to 14·4 per cent, in the value of exports to Norway. The timing of high-value exports of ships to that country can cause considerable year-to-year fluctuations in the valuation of trade. British exports fell by 3·3 per cent to Denmark, but rose 1 per cent to Switzerland, 2 per cent to Sweden, 9 per cent to Portugal and 14 per cent to Austria. EFTA was the only major trading area in which the value of British

TABLE 9

IMPORTS INTO THE COMMONWEALTH FROM CONTINENTAL MEMBERS OF EFTA

£ million

	1964	1965	1966	1967	1968*a*
United Kingdom	630	665	716	811	999
Canada	45	58	69	78	94
Australia..	42	47	47	47	60
New Zealand	8	11	8	9	10
India	24	25	21	21	25
Pakistan	8	9	14	9	11
Malaysia	5	6	8	8	8
Singapore	10	11	10	17	18
Hong Kong	16	17	17	21	27
Nigeria	11	16	8	9	11
Other Commonwealth	32	34	35	38	42
Total	831	899	953	1,068	1,305

a Actuals, or annual rates based on latest data.

exports showed no growth, in terms of dollars, in 1968. The dollar value of British imports in 1968 went up by 7·4 per cent, year on year. Trade with Norway provided one of the contentious issues to face the Association in that year, when the British Government decided to apply a 10 per cent duty on imports of frozen fillets arriving from EFTA. Previously the trade had been covered by an annual 24,000 tons duty-free quota, but this quota had been substantially exceeded, mainly by imports from Norway. The British Government first sought action along the lines of a voluntary restraint on exports to the United Kingdom, but these efforts had failed and the decision to impose a duty had been the only alternative.

As regards the development of Commonwealth trade as a whole with Continental EFTA countries in 1968, not surprisingly the totals of both imports and exports moved roughly in line with the British figures. Commonwealth exports to Continental EFTA rose 17 per cent in terms of sterling, which represents a negligible movement in dollars. The sterling value of Commonwealth imports from Continental EFTA rose by 22 per cent in 1968. About half of Canadian exports to Continental EFTA go to Norway, and of this in turn about 70 per cent consists of copper/nickel matte shipped to a Canadian-owned refinery. For the rest, the export list is very broad and most shipments are made in small quantities. The composition of Canadian exports to Continental EFTA is slowly changing to include more fully manufactured goods. Among other Commonwealth countries, copper exports from Zambia and bituminous products from Trinidad and Tobago have shown a steady year-by-year growth.

Japan

Japanese exports and imports on a Customs clearance basis during calendar 1968 were almost in balance again after the substantial deficit amounting to $1,220 million in the preceding year. The value of exports went up by 24·3 per cent to $12,979 million, while imports rose 11·4 per cent to reach $12,989 million. Improved business conditions in the United States (which takes about a third of Japanese exports) and in Western Europe, were the main factors influencing export growth. This, together with capital inflow, brought about a strong improvement in the balance of payments and enabled progressive relaxation of monetary restraints. Industrial production had not been severely affected by these restraints, however, and indeed the output of cars in 1968 exceeded four million for the first time.

To the fore in Japanese exports nowadays are steel, ships, cars, machinery and other heavy industrial products whereas formerly the leaders were textiles, chinaware, toys and other consumer goods. Advance U.S. purchases in anticipation of a steel strike in 1968, and hasty Japanese shipments in expectation of a U.S. longshoremen's strike at year-end, led to a total export growth of 35·8 per cent to the main market. The value of shipments to South Korea went up by 48 per cent, those to Taiwan rose 44 per cent, to Hong Kong 34 per cent and to the E.E.C. 25 per cent. Considered item by item, Japanese exports of steel, machinery, automobiles, television and wireless receivers, tape recorders and other household electric appliances expanded rapidly. Imports of food, pig iron and scrap iron, on the other hand decreased somewhat.

Japanese exports of steel products in 1968, amounting to 13·2 million tons valued at $1,810 million, showed a rise of 45 per cent by volume and 33 per cent by value compared with the preceding year. Classified by regions, the United States was the best overseas market for steel products, taking 6·9 million tons —an increase of 60 per cent over the previous year. Shipments to China rose by about the same percentage to 987,000 tons, while those to Taiwan and South

Korea went up by 32 and 42 per cent respectively. European markets took 70 per cent more Japanese steel in 1968 than in 1967.

Throughout the nineteen sixties the extraordinary growth of Japanese industry, and especially the steel industry, has generated a heavy demand for raw materials. To a growing extent future supplies of ores, etc. have been covered by the signing of long term contracts with overseas companies, which are not infrequently locally registered subsidiaries formed for the purpose. The capital of these subsidiaries, represented by fixed assets in the shape of mining plant and equipment, ore transporation and dockside facilities, is secured by the long term contracts for their output. Among the Commonwealth countries most affected by this fruitful admixture of trade and development are Australia, Canada and India. There are a great many long term contracts presently in force for the supply of Australian iron ore and coal to Japan, and in January 1969 what was believed to be the world's largest coal purchase contract was concluded.

Because of the great Japanese demand for industrial raw materials including, from Australia, wool, iron ore and coal, and from Canada, iron ore, nickel, other non-ferrous ores and scrap metals, timber and oilseeds, trade with these two Commonwealth countries, as well as with Zambia and Malaysia, is necessarily out of balance. India is another big Commonwealth supplier of raw materials—e.g. iron ore and manganese ore—now running an export surplus with Japan. Other parts of the Commonwealth run an import surplus, notably Hong Kong and Singapore. On the other hand Japanese trade with Britain, showing a very modest growth, has been not far out of balance after allowing for freight and insurance charges. Diverse industrial products from Japan include textiles, steel, radios, cameras, motor cars and motor cycles. Anti-dumping action was taken by Australia against Japanese cars in 1968. The major Japanese automobile makers have growing sales establishments in Canada also, and one is assembling locally, with the possibility of much larger operations and an eye to the whole north American market via the U.S.-Canada Auto Pact.

TABLE 10

EXPORTS FROM THE COMMONWEALTH TO JAPAN

£ million

	1964	1965	1966	1967	1968*a*
United Kingdom	60	53	69	87	98
Canada	110	105	131	189	234
Australia	188	176	210	249	333
New Zealand	17	19	33	34	36
India	46	41	48	61	83
Pakistan	9	9	9	13	23
Ceylon	3	3	3	3	4
Malaysia	68	69	81	88	106
Singapore	9	11	13	18	35
Hong Kong	20	24	27	32	40
Zambia	19	23	35	48	71
Other Commonwealth	22	21	30	31	41
Total	571	554	689	853	1,104

a Actuals, or annual rates based on latest data.

Aggregate exports from the Commonwealth to Japan, valued in dollars, increased by well over a tenth in 1968, but at only about half the percentage rate recorded in the two previous years when Japan was running into balance of payments difficulties. Gains were scored by the raw material supplying countries mentioned above, and by Ghana. The Canadian increase was much smaller than in 1967, but mining and mineral resources will not fail to be of prominent interest to Japanese firms because of the need for long term sources of supply. At least five Japanese companies were engaged in developing or prospecting for copper deposits in British Columbia in 1968, and there were two major schemes operated jointly by Japanese and Canadian interests for developing timber and pulp resources in the same Province.

TABLE 11

IMPORTS INTO THE COMMONWEALTH FROM JAPAN

£ million

	1964	1965	1966	1967	1968*a*
United Kingdom	75	78	77	91	115
Canada	58	76	84	101	137
Australia..	80	117	104	127	173
New Zealand	16	22	21	22	25
India	56	61	48	47	66
Pakistan	27	37	28	34	44
Ceylon	10	8	9	7	8
Malaysia	36	40	47	50	62
Singapore	42	49	54	64	89
Hong Kong	97	97	115	125	187
Ghana	7	7	7	7	7
Nigeria	31	26	14	19	9
Other Commonwealth	46	53	44	51	65
Total	581	671	652	745	987

a Actuals, or annual rates based on latest data.

The dollar value of total Commonwealth imports from Japan rose in 1968 at a rate almost half as high again as that in the previous year. Canadian and Australian imports advanced to levels about twice those of 1964, while those of Malaysia, Singapore and Hong Kong were not far behind on a proportionate basis. On the other hand several Commonwealth countries in Africa, among which Nigeria is the most noteworthy, are tending to take less from Japan, especially textiles. The import licensing system in Nigeria operates to favour domestic import substitution industries, such as cotton textile manufacturing based on the locally grown raw material. The same could be expected to happen in East Africa where cotton is a major crop. Indeed, in January 1969 Uganda banned all imports of cotton textiles from outside East Africa, along with textiles made from other materials having a landed value of less than 2s. 6d. (sterling) per square yard.

Considerable progress was made in 1968 towards the liberalisation of Japanese trade through a series of bilateral negotiations. As a result, import quotas on a number of manufactured products from several countries have been raised, and these include motor car engines and parts from the United States, and whisky, leather, cloth, wool and footwear from the United Kingdom. At the same time, Japanese export controls on certain products were eased. The Cabinet agreed in December 1968 to complete a programme of relaxation of import restrictions over the next two or three years.

Eastern Europe

The recorded value of exports from Commonwealth countries as a whole, to Eastern European countries, rose by 28 per cent in terms of sterling in 1968. This represented a rise of about a tenth in dollars. Three-quarters of this trade expansion was accounted for by the growth of exports from the United Kingdom and India. In the case of the former country, there was a sharp rise of nearly two-thirds in sterling sales to the Soviet Union in 1968, with machinery exports almost doubling and exports of textiles increasing by more than half. Deliveries of aircraft contributed to the growth of exports to Rumania, only partially offset by lower exports to Poland and East Germany. Since 1964, exports from Britain to Eastern Europe have expanded year by year, to reduce substantially the balance still existing in favour of the latter. In the case of India the trade with Eastern Europe has been held approximately in balance at a level of around £100 million annually between 1964 and 1967, but in 1968 there was a very considerable advance—by about 40 per cent in terms of sterling.

TABLE 12

EXPORTS FROM THE COMMONWEALTH TO EASTERN EUROPE

£ million

	1964	1965	1966	1967	1968*a*
United Kingdom	104	117	151	174	228
Canada	158	101	131	60	53
Australia	59	43	25	23	27
New Zealand	4	3	8	4	5
India	99	99	99	95	134
Pakistan	5	6	13	17	22
Ceylon	11	13	11	8	9
Malaysia	22	32	34	27	38
Singapore	14	20	17	15	18
Ghana	10	18	16	13	9
Zambia	3	4	5	3	4
Malawi	—	—	—	—	—
Other Commonwealth	11	9	11	9	27
Total	500	465	521	448	574

a Actuals, or annual rates based on latest data.

Canada and Australia were prominent among the countries which recorded lower exports, or dollar values not much higher in 1968 than in 1967. Since 1964, which was the bumper year for wheat exports to Eastern Europe, Soviet requirements have tailed off, partly owing to better luck with the weather and partly owing to a reversal of the "virgin lands" agricultural policy in favour of more capital-intensive methods involving greater use of fertilizers and farm machinery.

On the side of imports the British total recorded a growth not much higher than would be expected as a direct result of devaluation of the currency, while the growth of bilateral trade with India, about which more is said in the study of that country's trade later in this report, has already been noted. The general growth of trade, both imports and exports, between Nigeria and Eastern Europe, and the decline in the trade of Ghana with these communist countries, are politically motivated.

TABLE 13

IMPORTS INTO THE COMMONWEALTH FROM EASTERN EUROPE

£ million

	1964	1965	1966	1967	1968*a*
United Kingdom	193	220	241	254	303
Canada	9	14	18	26	30
Australia..	6	10	6	6	9
India	102	104	93	99	130
Pakistan	7	13	17	21	37
Ceylon	12	13	15	12	12
Ghana	17	32	14	8	7
Nigeria	7	6	3	6	12
Cyprus	2	3	3	4	4
Other Commonwealth	15	17	18	21	27
Total	370	432	428	457	571

a Actuals, or annual rates based on latest data.

China

Total Commonwealth exports to China in 1968 showed a very small rise in terms of sterling and a substantial drop in terms of dollars. Australia and Canada continued to head the list of Commonwealth suppliers, the sterling value of grain shipments between them showing little change over the level established in previous years. These two countries leapfrog for first place, however, and it was Canada's turn in 1968 to take the lead. In March 1968 the Australian Wheat Board announced the sale of 1 million tons for shipment to China between then and September. The lower volume in the new contract—worth between \$A50 and \$A60 million depending on the grades shipped—reflected the reduced overall amount of wheat available. Australian sales of wheat to China since the first big contract was signed in December 1960 were then estimated to have been worth between \$A800 and \$A900 million, and in Janaury 1969 the Wheat Board announced sale of another 2·2 million tons valued at \$A125 million. Canadian arrangements for 1968 wheat sales to China were concluded at talks in December 1967, when Canadian Wheat Board representatives agreed in Canton to the

TABLE 14

EXPORTS FROM THE COMMONWEALTH TO CHINA

£ million

	1964	1965	1966	1967	1968*a*
United Kingdom	18	26	34	39	29
Australia..	55	59	30	68	37
Canada	45	35	61	30	63
Pakistan	6	15	11	12	12
Ceylon	9	13	13	12	13
Singapore	—	3	16	11	11
Hong Kong	4	4	4	3	3
Other Commonwealth	11	16	11	15	26
Total	148	171	180	190	194

a Actuals, or annual rates based on latest data.

delivery of two million tons. A new agreement for 1969 was signed in November 1968, during the Autumn Canton Fair, for the sale of 1·45 million tons, to be shipped from December 1968 to July 1969, when the current three year agreement of intent between China and Canada expires. With the Autumn 1968 contract the 1966 agreement of intent—providing for sales of a minimum 168 million bushels to a maximum of 280 million bushels—had been honoured to the extent of 235 million bushels.

The fall of £9·4 million in British exports to China is largely explained by reference to a few major groups of commodities. Iron and steel went down by £6·8 million, of which £4·3 million was scrap, the export of which was prohibited. Plant and machinery fell £4·7 million as a result of China not having bought complete plant from abroad during the year. A fall of £2·3 million in transport equipment reflects delivery of two ships in 1967. The two textile groups showed exports down by £1·8 million in 1968, mainly in synthetics. Offsetting these decreases were rises of £4·5 million in diamonds and £3·2 million in non-ferrous metals.

TABLE 15

IMPORTS INTO THE COMMONWEALTH FROM CHINA

£ million

	1964	1965	1966	1967	1968*a*
United Kingdom	25	27	34	30	34
Canada	3	5	7	8	9
Australia	8	9	9	10	12
Pakistan	6	7	10	12	13
Ceylon	15	9	16	14	19
Malaysia	26	27	28	31	33
Singapore	23	26	32	45	65
Hong Kong	123	145	173	143	167
Ghana	1	5	3	—	—
Nigeria	3	6	4	—	—
Other Commonwealth	4	7	12	10	13
Total	237	273	328	303	365

a Actuals, or annual rates based on latest data.

British imports from China in 1968, at £34·3 million, showed no appreciable change compared with 1967 when allowance has been made for the devaluation of sterling. The same applied to the imports of Hong Kong, the major outlet for Chinese goods in the Commonwealth, and to the totals for Commonwealth countries as a whole.

Summary

The year 1968 proved in the end to have been a substantially more favourable one for the world economy than had been expected. Aggregate national output in O.E.C.D. countries, the growth of which dominates the trade outlook for most market economies, recovered from 3 per cent in 1967 to a little over the previous average of 5 per cent in 1968. World trade, expansion of which for over a decade has consistently outstripped the growth of world production, rose exceptionally fast in the latter part of 1968: for the year as a whole, taking into account what appears to have been a slight drop in price averages for manufactures, it may well have been 12 per cent higher in volume than it had been in 1967. If so, the rise was the second biggest in value and the largest in volume since the period of the Korean war.

Against this background of rapid advance in world trade, Commonwealth exports naturally showed a vigorous expansion. However, owing partly to the short-term "accounting" effects of the devaluation of sterling at the end of the previous year, the Commonwealth share of the world total of exports moved down a shade—from 21·2 per cent in 1967 to 20·9 per cent in the following year.

Commonwealth exports rose from £12,015 million in 1964 to £18,202 million in 1968. Because of the "spillover" effects of the continuing boom in U.S. economic activity, a disproportionate amount of this increase was channelled

TABLE 16

TRADE OF THE COMMONWEALTH WITH MAIN TRADING AREAS

	1964	1965	1966	1967	1968*a*
			£ million		
Exports to:					
Commonwealth	3,871	3,958	3,900	3,826	4,430
United States	2,487	2,853	3,458	3,834	5,543
E.E.C.	1,800	1,875	1,991	1,886	2,370
EFTA (Continental) ..	708	767	848	873	1,025
Japan	571	554	689	853	1,104
Eastern Europe	500	465	521	448	574
China	148	171	180	190	194
Other countries	1,930	2,070	2,198	2,301	2,962
Total	12,015	12,713	13,785	14,211	18,202
Imports from:					
Commonwealth	4,103	4,210	4,083	4,059	4,758
United States	3,456	3,805	4,215	4,717	5,995
E.E.C.	1,704	1,924	2,009	2,223	2,693
EFTA (Continental) ..	831	899	953	1,068	1,305
Japan	581	671	652	745	987
Eastern Europe	370	432	428	457	571
China	237	273	328	303	365
Other countries	2,423	2,371	2,472	2,732	3,434
Total	13,705	14,585	15,140	16,304	20,108
			Percentage of total trade		
Exports to:					
Commonwealth	32	31	28	27	24
United States	21	22	25	27	30
E.E.C.	15	15	14	13	13
EFTA (Continental) ..	6	6	6	6	6
Japan	5	4	5	6	6
Eastern Europe	4	4	4	3	3
China	1	1	1	1	1
Other countries	16	17	17	17	17
Total	100	100	100	100	100
Imports from:					
Commonwealth	30	29	27	25	24
United States	25	26	28	29	30
E.E.C.	12	13	13	14	13
EFTA (Continental) ..	6	6	6	7	6
Japan	4	5	4	5	5
Eastern Europe	3	3	3	3	3
China	2	2	2	2	2
Other countries	18	16	17	15	17
Total	100	100	100	100	100

a Actuals, or annual rates based on the latest data.

into that country. So far in the 1960's the U.S. economy has almost completed its own "development decade" with a run of unparalleled prosperity, and its effects on the orientation of Commonwealth trade have inevitably been heightened by the close ties with Canada, made closer by the arrangements relating to North American automotive production, "defence" production and petroleum oil and gas production and distribution. The result has been to raise the U.S. share of Commonwealth exports, at the "expense" of intra-Commonwealth trade, to 30 per cent in 1968, from 27 per cent in the preceding year and 21 per cent in 1964, as shown in Table 16.

At this level, the United States appears to have taken a commanding lead among the main trading areas for all Commonwealth countries combined. Only for Canada, Hong Kong, Jamaica, and Trinidad and Tobago, do exports to the United States exceed exports to the Commonwealth as a whole. But for another group of countries (Britain, Pakistan, Uganda and Guyana) sales to the United States are greater than the value of exports to any other single country, while for two others (India and Ghana) they vie for first place with exports to Britain—the trend favouring the United States.

The European Economic Community provided markets for 13 per cent of the total exports of Commonwealth countries in 1968, compared with 15 per cent in 1964, as shown in Table 16. These figures, and the corresponding shares of Commonwealth imports from the E.E.C., defy easy generalisation. A more detailed analysis of the trade of individual Commonwealth countries follows in Part II of this report.

Among the other main trading areas enumerated in Table 16, only in the case of Japan does there seem to have been a persistent tendency for the share of Commonwealth exports to exceed the import share, mainly owing to the importance of a number of Commonwealth countries as sources of raw materials feeding the expansion of Japanese industry. This applies particularly to Australia as a source of wool, coal and iron ore, as well as other commodities.

In the case of China, there appears to be a tendency for the Commonwealth to run a persistent import surplus. This is accounted for partly by the food imports of Hong Kong, China's gateway to the West. Trade between several Commonwealth countries and Eastern Europe is kept in balance by the system of clearing accounts in use, but the major Commonwealth commodity sales to the Soviet Union—wheat and rubber—are made for hard currency. Between 1964 and 1968 wheat sales from Canada and Australia to the Soviet Union have declined markedly, while there has been a steady liberalization of trade between Britain and Eastern Europe, and a move towards limited offset facilities for rupee balances arising out of trade between India and Eastern Europe.