COMMONWEALTH TRADING PARTNERS

Intra-Commonwealth trade

The three main components oF intra-Commonwealth trade are 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. Table 2 illustrates the growing importance of the last mentioned component. As regards the first two of these segments, which still account for some two thirds of the total of intra-Commonwealth trade, the decline in the share of Britain in world production and trade leads to the general 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 Britain being able to supply only a smaller proportion of their total import requirements. Relevant data for individual countries, for recent years only, are shown in Appendix Tables II to IX.

Among the many special features associated with the longer term trends has been the planned diversification of trade flows following independence of a number of countries, leading in some cases to growth of trade under bilateral payments arrangements with Eastern European countries and China, and a decline in the intermediary role of London as a centre for the sale by auction of Commonwealth produce. Moreover, trade aspects of development policies in some of the newer Commonwealth countries, the rapid industrialization of the older ones, the continuing multilateralization of trade under GATT and the attraction of regional trade possibilities, (especially the United States, Western Europe and Japan) have not only contributed toward a decline in the effect of Commonwealth preferences but also have combined with a steady erosion that

TABLE 2

INTRA-COMMONWEALTH TRADE *a*

£ million

	1966	1967	1968	1969	1970*b*
Exports and re-exports from the Commonwealth:					
United Kingdom to other Commonwealth countries	1,297	1,219	1,394	1,542	1,638
Other Commonwealth countries to United Kingdom	1,439	1,365	1,626	1,650	1,869
Other Commonwealth countries to each other	1,171	1,241	1,434	1,652	1,842
(1) Total intra-Commonwealth	3,907	3,825	4,454	4,844	5,349
(2) Total to all countries	13,810	14,203	18,215	20,696	23,120
(1) *as a percentage of* (2)	*28*	*27*	*24*	*23*	*23*
Imports into the Commonwealth:					
United Kingdom from other Commonwealth countries	1,590	1,574	1,790	1,872	2,094
Other Commonwealth countries from United Kingdom	1,349	1,263	1,500	1,625	1,773
Other Commonwealth countries from each other	1,144	1,219	1,404	1,545	1,793
(1) Total intra-Commonwealth	4,083	4,056	4,694	5,042	5,660
(2) Total from all countries	15,179	16,348	20,154	21,822	23,857
(1) *as a percentage of* (2)	*27*	*25*	*23*	*23*	*24*

a Sum of individual country valuations.

b Provisional.

these preferences have themselves been undergoing latterly. These influences have been strongly reinforced by the associated effects 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—much of which has been tied as to source or receivable in kind.

These considerations are still, collectively, a potent and pervasive influence. The very close ties now linking the United States and Canada are discussed in the following section of this report. This is followed by a section outlining relevant aspects of the development of the European Economic Community, including the negotiations for its enlargement and the extension of its influence by various forms of association in the Mediterranean and Africa. The General Review of this report also includes sections on the other main regions of interest including Eastern Europe, and China, which have come to be major grain markets for Australia and Canada, supplanting the position once held by Britain—where economic trends and the development of agricultural policy since the second world war have not in general favoured growing imports of temperate zone foodstuffs. A further evolution of British agricultural policy took place in 1970–71 with the announcement and introduction of import levies with a view to transferring from the national Exchequer to the consumer a large and unpredictably fluctuating element of cost in the prices of certain foods. The average increase in all minimum import prices for cereals was set at £3·50 per ton for 1971–72 and a further £2·50 for the following season.

Notwithstanding some of these long term influences, intra-Commonwealth trade as a proportion of total Commonwealth trade held steady in the years 1968–1970 at about 23 per cent. These were "post-devaluation" years in Britain and several other Commonwealth countries. They were the years in which the calamitous droughts in India and Pakistan were left behind, and the first signs of the "green revolution" appeared—lessening the need for extraordinarily large imports of food aid from the United States. As will be more clearly seen from Table 15 (page 35), the stabilization of intra-Commonwealth trade as a proportion of total Commonwealth trade is related to a reversal of the growth, up to 1968, in the American share.

Reference was made above to the growing importance, within the intra-Commonwealth total, of the trade of Commonwealth countries other than Britain with each other. A special feature of this trade in 1970 was provided by the unusual shipments of wheat and other grains from Australia to New Zealand because of the drought, and the large Canadian wheat exports to India and Pakistan—contributing to the almost doubling of total exports from Canada to these countries. There were also large increases in exports of automobiles from Australia to New Zealand, of basic industrial materials from Canada to India, and of crude petroleum oil from Nigeria to Trinidad and Tobago. Generally speaking, however, the mutual trade of Commonwealth countries excluding Britain is too diverse to be characterised briefly. Like the rest of intra-Commonwealth trade its growth is subject to both favourable and unfavourable influences, the latter including competitive industrialization where this has led to the breakdown of previously subsisting preferential arrangements. In addition, trade policy orientation in a number of Commonwealth countries in Asia leans less exclusively toward the Commonwealth, and more toward the development of trade within a quasi-political context, e.g. under the R.C.D. arrangements of Pakistan, Iran and Turkey, and the scheme of developing country preferences worked out by India in co-operation with Yugoslavia and the U.A.R. In the notes which follow, mention will be made of some of the more formal arrangements affecting the intra-Commonwealth trade of countries other than Britain.

Since the New Zealand/Canada Trade Agreement was concluded in 1932 there has been, except in three years, a heavy imbalance of trade in Canada's favour. Discussions were held in Ottawa in 1969 and early 1970 to review the terms of the 1932 Agreement, which both countries felt had become to some extent outmoded. There were, however, basic differences of approach which resulted in little change in the present state of tariffs and access rights emerging. Although the talks were not as successful as had been hoped, they did serve to point out issues which could be examined more fruitfully in the future. A Protocol to amend the 1932 Agreement, signed in May 1970, reflected the accord reached on administrative and consultative machinery. A joint consultative committee was set up to provide a forum for periodic discussions on general bilateral and multilateral matters, especially those of commercial and economic interest to the two countries.

Prospects for an expansion of trade between New Zealand and Canada are, of course, naturally overshadowed by the influence of the strong regional impetus of trade policies at either end. United States/Canadian trade developments are dealt with in the following section. In the case of trade between New Zealand and Australia, however, the regional ties between these countries work to promote intra-Commonwealth trade. With the increasing influence of the New Zealand/Australia Free Trade Agreement (NAFTA), trade between these two countries has continued to grow in importance. At the ministerial meeting of NAFTA in Canberra in March 1970, agreement was reached on new measures to extend the scope of the Agreement. Proposals designed to foster rationalisation of the two countries' motor vehicle industries, and to encourage an expansion of turnover in Australia's components and accessories trade, were studied later in the year. The continuing progress of the forest industry in both countries and the likely expansion of trade in this field again pointed up the importance of forest products in the Free Trade Agreement. The NAFTA Joint Consultative Council on Forest Industries, set up to promote the most efficient use of the combined resources of Australia and New Zealand, carried out further studies on matters of mutual interest which, it was hoped, would result in an increase not only in two-way trade in forest products, but also in trade to other countries.

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 food-stuffs (especially fish, flour and meats) 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, 29 cents per cwt. on their own 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 special 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.

With the introduction of the International Sugar Agreement in 1969, it had been the opinion of the Canadian Government that sugar rebate payments might be drawn to a close. However, in the light of representations from the region about the difficulties the sugar industry was facing and the need for a longer adjustment period, the Government decided, in 1970, to continue payments for that year. Towards the end of the year the Canadian Government decided to extend the period of the sugar rebate to the end of 1971. During the course of that year Government decisions would need to be taken on the Tariff Board report on sugar.

Special rebate payments for sugar are separate from and additional to the $5 million Agricultural Development Fund which had originally been intended to supersede the rebate, but which the Canadian Government decided to launch immediately at the start of 1971. It was agreed that the Fund would be substantially "untied", on liberal terms and replenishable.

As regards intra-Commonwealth trade within the Caribbean region itself, this has in recent years been stimulated as a result of arrangements of the Caribbean Free Trade Association (CARIFTA). CARIFTA came into being in May 1968, with the signing of the agreement in Antigua at the end of the previous month. The signing was subsequently acceded to and ratified by the Governments of Jamaica, Guyana, Barbados, Antigua, Dominica, Trinidad and Tobago, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, Montserrat and Grenada, their stated objectives being: "To promote the expansion and diversification of trade within the area; to ensure that trade between Member territories takes place in conditions of fair competition; and to encourage the harmonious development of Caribbean trade and liberalization by the removal of barriers to it".

Since the Agreement was signed the trade of the region has expanded considerably, although the mere removal of customs duties within CARIFTA is having only a marginal effect on the intra-trade of the region. This is due to the similarity of each island's exports, to the extent to which these exports are already effectively dependent on markets in the major industrialized countries of Europe and North America, and to the problems inherent in developing productive capacity and diversifying output. On 10 March 1971 the CARIFTA Council of Ministers agreed to accept Belize (formerly British Honduras) to full membership. The communique issued stated that "Under the terms of the council's decision Belize will be designated a less developed country within the association". Belize's membership was to take effect from 1 May 1971, the third anniversary of CARIFTA, thus raising the membership to twelve.

The other formal group linking the trade of some developing Commonwealth countries is in Africa. The East African Community replaced the East African Common Market, under which the economies of Kenya, Uganda and Tanzania were gradually being integrated. Regional intra-trade consists mainly of such items as soap, pyrethrum, clothing and blankets, beer and spirits, foot-wear, 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.

Trade between the three Partner States of the East African Community rose by 17 per cent in 1970. The most marked rate of growth was shown by

Tanzanian exports to Kenya and Uganda, which went up by 24 per cent and this, it was reported to a meeting of the Community's Legislative Assembly in May 1971, was a sign that the countries were progressing towards a common market.

United States

The importance for the Commonwealth of developments in United States foreign economic policy should need no underlining. In the past decade a very close economic symbiosis has developed between the United States and Canada and indeed the bulk of Commonwealth trade with the United States is accounted for by Canada alone; but several other Commonwealth countries each list the United States as the major or second most important individual country for their export products. The United States is the most important such market for Britain, Hong Kong, India, Jamaica and Trinidad and Tobago. The United States ranks about equal first with Britain as an export market for Pakistan and Uganda, while for Australia and New Zealand it ranks second (after Japan in the case of Australia and after Britain in the case of New Zealand). In none of these countries, however, do developments in the United States so profoundly affect domestic policy considerations as in Canada.

Canada has long been accustomed to a special relationship with the United States. It is this special relationship that won for Canada exemption from the Interest Equalisation Tax in 1963, from the voluntary credit restraint programme in 1965, and from the mandatory control programme in 1968. It also made the Auto Pact possible. The feeling seems to have grown that the structure of the Canadian economy has undergone important changes in the past five years or so, and while none suggests the special relationship is about to end, there is a feeling that it will be a different kind of "special relationship" in the future. At the thirteenth annual meeting of the Joint United States-Canadian Committee on Trade and Economic Affairs, held in Ottawa in November 1970, items on the agenda included Canadian exchange rate policy, the auto trade pact of 1965, Canadian oil exports to the United States, the defence production sharing arrangements, and Canada's exemption from the United States interest equalisation tax.

Among the reasons for Canada's improved trade position with the United States have been the much better than expected Canadian performance under the Auto Pact and growing crude oil and natural gas sales across the border. Since 1965, when the Auto Pact was signed, Canada has moved from a trade deficit in automotive goods amounting to $768 million, to a surplus of about $250 million in 1970. This tendency was exaggerated in the 1970 model year by the fortuitous fact that the automobile companies had concentrated in their Canadian plants on the production of models that happened to be most successful in the market place.

Specific agricultural problems discussed at the thirteenth annual meeting of the Joint United States-Canadian Committee on Trade and Economic Affairs included beef imports by the United States and Canada. Under its own protectionist arrangements of 1967, U.S. quotas had been imposed on imports of beef from foreign supplying countries (including Australia and New Zealand). After discussions with all major suppliers the United States Government had increased the "voluntary" restraint level on meat imports for 1970 by 26·5 million lb to 1,061·5 million lb. From the point of view of Commonwealth supplying countries this restraint level was a disappointingly low figure in view of the current strong demand for beef in the United States, and it was thought that the likelihood of an increasing shortage of manufacturing grades of beef in that country during 1970 could have intensified internal pressures for a relaxation of quota restrictions. There had been, however, some evidence of a diversion of supplies for the United States from Australia and New Zealand through Canada. This small loophole was closed during 1970.

Economic consultations between New Zealand and the United States were held in April 1970, when the United States participants reconfirmed that unrestricted access for lamb would continue. The longer-term outlook for lamb exports to the United States consequently remains encouraging. Access for dairy products, however, remains severely restricted and the beef trade of both New Zealand and Australia cannot grow rapidly because of the quota limitations.

In contrast to previous periods of economic sluggishness, U.S. import demand remained fairly strong throughout 1970 despite the downturn in the economy. This is reflected in the continued growth of exports from the Commonwealth to the United States shown in Table 3. For their fifth consecutive year, purchases of consumer goods contributed most to the expansion of U.S. imports from all sources, and would have been larger but for the marked deceleration in arrivals of automotive products from U.S. subsidiaries in Canada. Weak demand for cars in the United States, and the General Motors strike towards the end of the year, held the advance in these imports to 3 per cent—a huge reduction from the 34 per cent increase of 1969. The value of new automobiles imported from Canada actually fell slightly in 1970, as shown in Appendix Table XII. The same table, however, shows a jump in the value of U.S. imports of Canadian steel mill products, and certain non-ferrous metals: apart from the price rises which these reflect, the increases resulted largely from the fact that U.S. imports of these products in 1969 were depressed as a result of a long, industry-wide Canadian strike.

Exports from Hong Kong to the U.S.A. continued their rapid growth in 1970 (Table 3), but this was not due to cotton textiles (Appendix Table XII), the quantities of which are restricted under bilateral arrangements in the framework of the GATT L.T.A.

TABLE 3

EXPORTS FROM THE COMMONWEALTH TO THE UNITED STATES

£ million

	1966	1967	1968	1969	1970*a*
Australia..	142	139	202	235	249
Canada	2,066	2,428	3,565	4,106	4,415
Ceylon	10	10	10	10	10
Ghana	14	16	24	19	16
Hong Kong	134	165	249	319	374
India	108	91	122	138	111
Jamaica	31	33	36	40	57
Malaysia	56	61	87	103	91
New Zealand	62	56	79	80	86
Nigeria	22	19	20	47	56
Pakistan	25	27	41	32	35
Singapore	17	26	42	66	67
Trinidad & Tobago	57	68	91	101	102
Uganda	17	14	19	19	21
United Kingdom	652	639	910	906	943
Other Commonwealth	41	50	64	67	69
Total	3,454	3,842	5,561	6,288	6,702

a Actuals, or annual rates based on latest data.

TABLE 4

IMPORTS INTO THE COMMONWEALTH FROM THE UNITED STATES

£ million

	1966	1967	1968	1969	1970*a*
Australia..	280	306	414	404	461
Canada ..	2,359	2,650	3,488	3,977	3,965
Ceylon ..	6	8	12	15	9
Ghana ..	21	18	24	27	34
Hong Kong ..	68	88	119	138	159
India ..	356	385	357	255	253
Jamaica ..	43	49	62	77	81
Malawi ..	1	1	2	1	1
Malaysia ..	24	25	31	31	44
New Zealand ..	40	35	42	48	65
Nigeria ..	42	28	26	34	62
Pakistan ..	94	129	128	105	164
Singapore ..	24	28	46	65	106
Trinidad & Tobago ..	23	24	26	29	36
United Kingdom ..	723	812	1,064	1,131	1,174
Zambia ..	14	16	19	17	19
Other Commonwealth ..	97	112	135	174	207
Total ..	4,215	4,714	5,995	6,528	6,840

a Actuals, or annual rates based on latest data.

As regards imports into Commonwealth countries from the United States (Table 4), the most remarkable feature in 1970 was the fall in the Canadian figures. The high level of unemployment associated with depressed demand conditions in Canada has been referred to earlier in this report, when it was noted that total Canadian imports from all sources showed no appreciable movement between 1969 and 1970—in marked contrast to the general experience in the rest of the world. A special influence was provided by the curtailment of wheat production in Canada under "Operation LIFT" (Lower inventories for tomorrow) which resulted in lower investment in farm equipment and a sharp drop in imports of agricultural machinery and implements from the United States.

European Economic Community

As indicated in "Commonwealth Trade 1969", the "Hague Summit" of Heads of State or Government of the Six, held in December 1969, was in some respects the most significant event of the year having a bearing on the trade of Commonwealth countries. After completion of outline arrangements for financing the Common Agricultural Policy and the Community institutions, and after filling in the details of the agricultural package deal, the way was clear for the start of negotiations for the adhesion of Britain, the Irish Republic, Denmark and Norway to the E.E.C. Accordingly, on 1 July 1970, formal negotiations were opened with the four applicant countries under Article 237 of the Rome Treaty providing for the Common Market's enlargement.

The stated aim of Britain and the Six was that all major issues of the negotiations should be "on the table" by the end of 1970, and this was achieved on the British side when, towards the end of the year, the formal British proposals on Community finance were submitted. Britain had already put in proposals for what she considered to be the other key areas of the talks—Commonwealth sugar, the special position of New Zealand, and the length of the transitional periods for industry and agriculture.

An attempt to summarise the state of negotiations would only be of temporary interest. It may be mentioned, however, that agreement had been reached by the end of 1970 on a five year transitional period for both agriculture and industry. The length of the transitional period for accession to the financial regulations of the E.E.C., the "key" for the rate of British contributions to the Community funds, and the possibility of some form of safeguard formula, had been broached but not negotiated.

It had been reported in December 1970 that Association Agreements would be offered to nine independent Commonwealth countries in Africa, in the event of negotiations for British entry to the European Communities succeeding. The countries to which the offer would be made were Kenya, Uganda and Tanzania (the Arusha Convention expiring in 1975), The Gambia, Ghana, Malawi, Nigeria, Sierra Leone, and Zambia. Each of the nine countries would be able to choose between one of three kinds of agreement: they could opt for associate status under the Yaounde Convention, negotiations for the renewal of which are due to start in 1973; or they could have an Arusha-style agreement; the third option would be a simple trade agreement. These countries, it was reported, would be allowed to continue present trading links with Britain until new global arrangements between the Community and the Yaounde Convention countries (A.A.S.M.) come into force in 1975. In January 1971 the offer was extended to Botswana, Lesotho and Swaziland, subject to an appropriate consideration of the effects of their Customs Union with South Africa.

As regards developing Commonwealth countries in the Indian Ocean, the Pacific and the Caribbean, for which Britain had proposed that the same options be available, the Community said that it could only state its position in the light of discussions taking place with respect to the Commonwealth Sugar Agreement. Arising out of those talks in May 1971 it was announced that the same options would be available to those countries in the event of British accession to the E.E.C.

In 1970 the British Government had tabled a memorandum on the subject of Commonwealth Sugar exports which envisaged that Australia would be phased out of membership of the Commonwealth Sugar Agreement after the end of 1974. The Australian Government pointed out that the implications of this would involve not only the Commonwealth Sugar Agreement but also the International Sugar Agreement, which includes the C.S.A. as a special arrangement. The European Community is not yet a member of the International Sugar Agreement.

Although, at the turn of the year, it did not seem likely that a clear view of the outcome of the British application would emerge before the middle of 1971 at the earliest, a definite stage had nevertheless been reached on the Maltese application for association. Negotiations between Malta and the E.E.C. had been proceeding for more than a year previously, and an agreement establishing an Association was signed at Valletta in December 1970. Under this accord, which was expected to enter into force on 1 April 1971, Malta would become part of the European Community's Customs Union in two five-year stages.

On the operative date of the Agreement the E.E.C. was to cut by 70 per cent the customs duties on imports of Maltese industrial exports, except for petroleum products (which do not yet play an important part in the Maltese economy, and do not come under the arrangements for the first stage). The Community was to abolish all quantitative restrictions on imports of Maltese industrial products apart from petroleum products, and on four products of the Maltese textile industry, where the tariff reductions would be granted only within quotas. On the other hand the tariff system applicable to the products supplied by the Community and imported into Malta were not to be less favourable than those applied to products from the most favoured third party. Until the end of the fourth year of the agreement, however, Commonwealth goods to which Malta already grants tariff preference will be excepted.

In August 1970 the Government of Cyprus made an approach to the E.E.C., asking for the opening of talks with a view to the negotiation of an association with the Community under Article 238 of the Rome Treaty, and the negotiation of a rapid interim agreement to solve the most urgent problems while waiting for association. The Council of Ministers called upon the European Commission to examine the situation and report, but this task was not completed by the end of the year.

During 1970 agreements of one sort and another were concluded between the E.E.C. and several other Commonwealth countries. After three years of intermittent negotiations the E.E.C. and Pakistan concluded an agreement on jute goods along the lines of the pact that the Community had negotiated with India at the end of 1969. Then, in return for an Indian undertaking to limit exports of carpet backing, the Six had agreed to reduce their jute tariffs at once, rather than over a period of years as provided for in the Kennedy Round protocol. The quota, which applied only to jute cloth over 150 cm. wide, was fixed at 5,500 tons for 1969, rising by annual increments of 250 tons to reach 6,250 tons in 1972, when the agreement expires. The E.E.C. agreed that the quota could be exceeded if the needs of the Community's carpet industry require it. Under the agreement with Pakistan, the duty-free quota for carpet backing was set at 760 tons p.a., with annual increments of 15 per cent. The three-year agreement also provided for an annual quota of 2,000 tons of special quality yarns. The sizes of the tariff quotas for India and Pakistan were supposed to be in line with current export performance, more or less, so that for practical purposes they would pave the way for the elimination of the E.E.C.'s high tariffs on jute goods. In their provisional offer under the UNCTAD scheme of generalized preferences the Six had made no exception of jute goods, but duty-free treatment was to apply only within the framework of bilateral agreements with the Community's main suppliers.

In September 1970 India asked for an overall trade agreement with the Community, under which she might hope to reduce her large trade deficit with the Six. In asking the Commission in general terms for discussions on how her marketing position in the Community could be improved, India is reported to have distinguished between the problems she would face if Britain joined the Community (which would involve the Indo-United Kingdom trade agreement and Commonwealth preference) and the basic trading problems which already exist. India would have liked to reach a trade agreement with the Six before tackling the implications of the E.E.C.'s enlargement. The E.E.C., on the other hand, appeared to take the view that overall settlements with Asian Commonwealth countries could be reached if and when the terms of British accession to the Common Market were known, to be implemented during the transitional period *pari passu*.

The beginning of 1971 assumed particular importance for the Community and for its relations with other countries. It was the date for entry into force of the treaty for new budgetary powers of the European Parliament and of the decision instituting the Communities' own resources; for entry into force of the "Community" nature of export and import licences for farm products; for the entry into force of a new common external tariff embodying a further stage of Kennedy

Round reductions; for renewal until 31 January 1975 of the E.E.C. Association with the overseas countries and territories; for entry into force of the Arusha Convention of 1969, valid until 31 January 1975; and for the entry into force of the second Yaounde Convention which renews, to the same date, the association between the E.E.C. and the A.A.S.M. During the course of 1970 a trade agreement between the Governments of Kenya, Tanzania and Uganda, on one hand, and the European Commission on the other hand, made immediately operative the trade clauses of the Arusha Convention.

On 1 January 1971, after a period of considerable delay owing to slow ratification, the second Yaounde Convention came fully into force. One of its features, and an aspect that came under strong criticism at the Eur-African parliamentary conference at Libreville in October 1970, was the reduction of the privileged status of the eighteen in the European Common Market for their exports of a number of important tropical products—mainly coffee, cocoa and palm oil. The principle of duty reduction or suspension had been agreed upon at the negotiations for the renewal of the Convention, as a compensation to the developing countries which did not belong to the Association, and in view of the E.E.C.'s worldwide responsibilities. For the above-mentioned commodities, and as from 1 January 1971, there was a partial suspension of the common external tariff. The Community gave no undertaking for consolidation of the reduced m.f.n. rates and could, if necessary, reverse its decisions. In addition, for coffee, the partial suspension is linked with the existence and satisfactory functioning of the International Coffee Agreement, which has enabled the A.A. S.M. during past years to market their coffee in conditions which the European Commission considers to be satisfactory.

The partial tariff disarmament brought about by Yaounde II is a welcome move to rectify some of the most glaring shortcomings of the Kennedy Round with respect to tropical products. It also reduces to some extent the double spread between the Commonwealth and the E.E.C. preferences for the commodities concerned, which the UNCTAD scheme of generalized preferences for manufactures and semi-manufactures does not affect. In the absence of further tariff reductions, either under Part 4 of GATT or in the context of the negotiations for enlargement of the E.E.C., British adhesion to the latter would mean, for many Commonwealth countries not given the option of Association, exchanging free-entry into Britain for the C.E.T., and the Commonwealth preference on coffee and vegetable oils for reverse preferences on coffee, cocoa and vegetable oils.

The buoyant economic conditions obtaining in the European Economic Community in 1970 have already been referred to in this report. Table 5 shows the extent to which Commonwealth countries were able to take advantage of these conditions to increase their exports. Britain increased its shipments to £1,754 million, to exceed by a small margin (and for the first time) the value of its exports to the Commonwealth (Table 2). Canadian exports of basic materials, such as wood products and minerals, contributed towards a rise of over 40 per cent in total exports from that country to the E.E.C. although, as in the case of its exports to the U.S.A., the holdup of certain items by strikes affecting production in 1969 resulted in an abnormally high gain in the following year. Exports of manufactures from Hong Kong to the E.E.C., (as to the U.S.A.) once more went ahead rapidly in 1970, and several other Commonwealth countries did well with their exports of primary products. Among these Nigeria was outstanding. Zambian exports of copper to the E.E.C. were adversely affected by both production setback and price falls.

On the side of imports into Commonwealth countries from the E.E.C., rises were general, with only one or two exceptions such as Ceylon, whose total imports from all sources recorded a fall in 1970, in line with official policy designed to husband foreign exchange; and India, owing to the development of its trade with Eastern Europe and attempts to minimise its adverse trade gap with the E.E.C.

TABLE 5

EXPORTS FROM THE COMMONWEALTH TO THE EUROPEAN ECONOMIC COMMUNITY

£ million

	1966	1967	1968	1969	1970a
Australia..	165	150	173	205	186
Canada	213	228	294	330	482
Ceylon	10	10	14	12	12
Ghana	21	20	36	37	37
Hong Kong	47	43	57	85	108
India	43	38	59	57	52
Malawi	2	2	2	2	2
Malaysia	46	39	53	70	85
New Zealand	58	38	44	65	51
Nigeria	101	96	88	132	174
Pakistan	35	27	55	40	39
Singapore	22	26	34	44	49
Trinidad & Tobago	14	9	6	6	5
United Kingdom	1,045	1,042	1,292	1,526	1,754
Zambia	84	63	102	148	127
Other Commonwealth	85	55	73	81	90
Total	1,991	1,886	2,382	2,840	3,253

a Actuals, or annual rates based on latest data.

TABLE 6

IMPORTS INTO THE COMMONWEALTH FROM THE EUROPEAN ECONOMIC COMMUNITY

£ million

	1966	1967	1968	1969	1970a
Australia..	136	154	190	202	244
Canada	182	207	255	304	322
Ceylon	17	20	18	23	19
Ghana	27	22	26	30	37
Hong Kong	49	53	71	90	111
India	128	127	133	104	93
Kenya	21	23	28	28	34
Malawi	2	2	2	2	3
Malaysia	36	35	41	44	52
New Zealand	24	26	25	31	39
Nigeria	68	58	62	73	117
Pakistan	61	70	76	98	91
Singapore	32	36	44	60	73
United Kingdom	1,104	1,264	1,551	1,608	1,822
Zambia	10	19	24	18	22
Other Commonwealth	112	108	130	146	166
Total	2,009	2,224	2,676	2,861	3,245

a Actuals, or annual rates based on latest data.

European Free Trade Association

In July 1970 Denmark and Norway, as well as Britain, formally commenced negotiations for entry into the European Economic Community. Accordingly, deliberations in the EFTA Council during the year included a consideration of the modus operandi of those negotiations and an exchange of policy statements, not only by the EFTA applicants to the E.E.C., but also by those EFTA countries not able or willing to contemplate all the obligations of full membership of the E.E.C. Parallelism in the negotiations between the Six and the various applicant countries had been decided upon at an early stage by the E.E.C.

Towards the end of 1970 it was announced that Austria, whose trade ties with the E.E.C. are already strong, sought an arrangement looking eventually to complete free-trade, in accordance with Article XXIV of the General Agreement on Tariffs and Trade. This arrangement would come into force if and when other EFTA countries became members of the E.E.C., thus preserving the freedom of trade already achieved in EFTA. Sweden sought to participate in the enlargement of the European Communities through comprehensive, close, and lasting economic relationships, including membership in the E.E.C. customs union and adherence to the common agricultural policy. Switzerland, which is second in EFTA (after the United Kingdom) as a customer of the present E.E.C. membership, sought very liberal trade relations and an appropriate institutional framework to facilitate co-operation in other economic fields. Finland, whose policy of neutrality also would not permit membership in the E.E.C., asked for some type of association which would preserve its free trade with the other EFTA countries and extend similar arrangements, if possible, to the six E.E.C. members. Iceland, which is highly dependent on a single export item, fish, agreed to explore with the Commission some suitable form of trading relationship. Portugal sought associate membership with special provisions—such as were granted by its EFTA partners—that would recognize the differences in the levels of economic development between E.E.C. members and Portugal.

Reference has already been made in this report to the rapid growth of imports into Continental EFTA countries in 1970. Table 7 shows the interest of the Commonwealth in this expansion, exports of Commonwealth countries to

TABLE 7

EXPORTS FROM THE COMMONWEALTH TO CONTINENTAL MEMBERS OF EFTA

£ million

	1966	1967	1968	1969	1970*a*
Australia..	10	12	11	14	13
Canada	68	58	82	83	124
Hong Kong	15	22	25	38	49
India	6	7	8	9	9
Jamaica	7	8	11	13	10
New Zealand	4	4	3	5	4
Nigeria	13	16	17	28	23
Pakistan	4	4	7	6	7
Singapore	2	3	2	4	5
Trinidad & Tobago	11	12	19	12	13
United Kingdom	684	706	803	972	1,145
Zambia	14	14	18	25	20
Other Commonwealth	21	19	23	29	35
Total	859	885	1,029	1,238	1,457

a Actuals, or annual rates based on latest data.

TABLE 8

IMPORTS INTO THE COMMONWEALTH FROM CONTINENTAL MEMBERS OF EFTA

£ million

	1966	1967	1968	1969	1970*a*
Australia..	47	47	60	63	74
Canada ..	69	78	96	115	130
Hong Kong	17	21	26	38	47
India	21	21	24	17	15
Malaysia	8	8	10	10	12
New Zealand	8	9	11	10	10
Nigeria ..	15	13	9	11	19
Pakistan ..	14	9	11	14	12
Singapore	10	17	15	20	24
United Kingdom	716	811	999	1,072	1,209
Other Commonwealth ..	36	37	47	52	62
Total ..	961	1,071	1,308	1,422	1,614

a Actuals, or annual rates based on latest data.

"Continental" EFTA rising by not much less than 20 per cent. This figure is, of course, largely a reflection of the British performance—intra-EFTA trade increasing in 1970 by more than trade with any other area—but the strong expansion of Canadian and Hong Kong sales in Scandinavia continued. The Canadian expansion consisted mainly of non-ferrous metals. Over the period 1966 to 1970 (Table 7) exports from Hong Kong to Continental EFTA more than trebled in terms of sterling, textiles and clothing being a major component of this growth.

Japan

The growth of Japanese industry and foreign trade over the past decade and more has been one of the most remarkable phenomena in the whole field of international economic affairs. The year 1970 was no exception, gross national product rising by a nominal 18·3 per cent, or by 11·2 per cent in terms of constant prices—hardly less than the real growth of the preceding year. For long the growth of the Japanese economy was accompanied by defensive economic policies, but in more recent years the size of the Japanese payments surplus and the appetite of Japanese industry for raw materials of all kinds, and especially minerals, have brought about a more expansive and less restrictive posture—especially as regards imports of manufactures and capital, and foreign aid. At the beginning of 1971 Japan announced another $100 million loan to the World Bank, bringing to more than $400 million the accommodation provided by the Bank of Japan to that institution in little over twelve months. This gives some indication of the growing size of the payments surplus. It was queried, however, whether large surpluses could be offset indefinitely by capital exports.

In past issues of this report emphasis has been placed on the importance of Australia, Canada and India as sources of minerals for Japanese industrial expansion. Japan is indeed by far the largest export market for Australia, and ranks among the premier markets of India (along with the United States and the Soviet Union). It is also, however, a growing export market for New Zealand, ranking fourth after the United Kingdom, the United States and the E.E.C.

The main barriers at present to a greater increase of New Zealand exports to Japan are quantitative restrictions on the import of beef into Japan and an import control policy for most dairy products, which is geared to high internal prices in support of Japanese production. The value of New Zealand dairy exports to Japan has, in fact, fallen in the past three years; under the policy of restructured production out of rice and into livestock, Japanese milk production has increased rapidly. There appears little prospect in the immediate future of large increases in Japanese dairy imports. Cheese is free of quota in Japan but carries a 35 per cent duty; skimmed milk powder sales were showing satisfactory results until Japan imposed limitations. The New Zealand dairy industry had its eye on the large Japanese school programme which uses considerable quantities of milk powder. There is a growing acceptance of lamb in the Japanese market and in the use of mutton for processed meats, although in 1970 New Zealand's shipments of mutton to Japan fell by a very large tonnage. Given some liberalisation of beef imports there are prospects for a steady increase for trade in meat, provided this does not interfere with the high support price policies of the Japanese Government. There are also prospects for a continued expansion of the growing trade in forest products.

Arrangements were made for the continued expansion of Anglo-Japanese trade in 1970, and a programme was agreed for eliminating remaining trade restrictions in both directions. The Japanese Government liberalised the import of wool cloth and increased the opportunities available for British exports of various foodstuffs and manufactured items still subject to global quota in Japan. In return, quotas were increased by up to 20 per cent for the export to the United Kingdom of goods still subject to voluntary export control by Japan, and in accordance with arrangements agreed in principle in the negotiations at the end of 1968, certain textile goods were removed from the list of items subject to control.

Discussions between the British and Japanese Governments with the object of reaching a long-term agreement for the removal of the remaining restrictions on mutual trade began in June 1969. The intention of the British Government was to end the remaining restrictions on non-cotton textiles and pottery over the following three or four years. However, future policy towards imports of textiles from Japan will need to take account of trade relations between a number of other countries—especially those between Japan and the United States.

TABLE 9

EXPORTS FROM THE COMMONWEALTH TO JAPAN

£ million

	1966	1967	1968	1969	1970*a*
Australia..	210	249	333	439	521
Canada	131	190	234	241	318
Ceylon	3	3	4	3	5
Ghana	5	7	9	11	8
Hong Kong	27	32	40	59	74
India	48	61	84	93	115
Malaysia	81	88	105	126	131
New Zealand	33	34	36	45	50
Pakistan	9	13	22	14	18
Singapore	13	16	35	43	44
Uganda	3	6	9	10	12
United Kingdom	69	87	98	129	148
Zambia	35	48	67	105	98
Other Commonwealth	26	23	29	27	27
Total	693	857	1,105	1,345	1,569

a Actuals, or annual rates based on latest data.

TABLE 10

IMPORTS INTO THE COMMONWEALTH FROM JAPAN

£ million

	1966	1967	1968	1969	1970*a*
Australia..	104	127	173	206	235
Canada ..	84	101	139	191	233
Ceylon ..	9	7	8	13	14
Ghana ..	7	7	7	8	10
Hong Kong ..	115	125	187	240	288
India ..	48	47	66	36	43
Kenya ..	3	6	9	11	17
Malaysia ..	47	50	66	78	100
New Zealand ..	21	22	28	33	46
Nigeria ..	14	19	8	11	30
Pakistan ..	28	34	47	47	56
Singapore ..	54	64	94	138	187
United Kingdom ..	77	91	115	104	134
Zambia ..	4	9	11	13	13
Other Commonwealth ..	37	38	52	60	64
Total ..	652	747	1,010	1,189	1,470

a Actuals, or annual rates based on latest data.

The spectacular rise of total Japanese imports from all sources in 1970, by over a quarter, has already been mentioned in this report. Commonwealth exports to Japan went up by rather less—about 18 per cent as shown in Table 9. Increases in exports of copper ore, wood pulp and aluminium, and a revival in wheat exports, contributed to the higher level of Canadian exports to Japan. Minerals were again the main component of the rise in Australian exports to that country. Imports into the Commonwealth as a whole from Japan rose by rather more than the trade in the other direction. The movement was rather general, affecting most Commonwealth countries. The almost 30 per cent rise in British imports from Japan (Table 10) is clear evidence of the liberalization of this trade.

Eastern Europe

Since the disastrous harvests in the middle nineteen sixties, followed by abandonment of the "virgin lands" policy in the Soviet Union and increasing reliance on intensive methods of farming, Eastern Europe had offered a seemingly declining market for Commonwealth agricultural produce, expecially grain.* In 1970, however, wheat was a major contributor to the expansion of Commonwealth, and especially Canadian, sales to Eastern Europe, where there was also a better demand for New Zealand meat. Together with the results of a relaxation in trade between Britain and the Soviet Union, and an expansion in the exports of India, Nigeria and Singapore, Commonwealth exports as a whole to Eastern Europe rose by over a fifth, i.e. by a larger proportion than exports to any other major marketing area.

One of the most significant features of the development of Soviet trade policy in recent years has been its liberalization and increasing orientation towards Asia (except China). In Singapore the first Soviet trade and industrial exposition was held there in September 1970. Trade with Eastern European countries

* Output of wheat in the Soviet Union in 1970 was estimated at 80 million tons by the Foreign Agricultural Service of the U.S. Department of Agriculture—a rise of 28 per cent over output in 1969—and Soviet sources have announced that investment in State and collective farms under the 1971-75 economic plan will equal agricultural investment during the whole of the two previous five year plans combined.

(Tables 11 and 12) has increased rapidly over the past five years following the signing of trade agreements obligating the Soviet Union, Bulgaria, Poland and Rumania to purchase manufactured goods from Singapore to the value of 50 per cent of their total sales to Singapore. In particular, imports into Singapore have gone up from only £2 million in 1966 to an estimated £15 million in 1970. Statistics of Pakistan's growth of trade with Eastern European countries show a similar rapid expansion. In the case of India, exports to Eastern European countries now account for about a fifth of the total, and take an increasingly large share of exports of engineering goods in liquidation of bilateral debt. Continual expansion in the scope of trade with State agencies in Eastern European countries, and the "socialization" of Indian foreign trade, must soon result in sales to Eastern Europe surpassing those to the Commonwealth as a whole—unless there is a totally unforeseen change of trend.

TABLE 11

EXPORTS FROM THE COMMONWEALTH TO EASTERN EUROPE

£ million

	1966	1967	1968	1969	1970*a*
Australia..	25	23	27	33	47
Canada	131	60	53	12	57
Ceylon	11	8	11	11	12
Ghana	16	13	8	4	7
India	99	95	133	146	159
Malaysia	34	27	37	45	40
New Zealand	8	4	7	8	11
Nigeria	3	7	11	12	23
Pakistan	13	17	23	30	37
Singapore	17	14	20	28	33
United Kingdom	151	174	229	229	258
Zambia	5	3	3	4	3
Other Commonwealth ..	10	9	8	13	15
Total	523	454	570	575	702

a Actuals, or annual rates based on latest data.

TABLE 12

IMPORTS INTO THE COMMONWEALTH FROM EASTERN EUROPE

£ million

	1966	1967	1968	1969	1970*a*
Australia..	6	6	8	9	12
Canada	18	26	30	29	27
Ceylon	15	12	12	14	11
Cyprus	3	4	4	6	6
Ghana	14	8	8	9	11
India	93	99	125	125	120
Nigeria	6	7	9	9	16
Pakistan	17	21	36	38	33
Singapore	2	4	8	9	15
United Kingdom	241	254	303	331	364
Other Commonwealth ..	16	18	23	25	30
Total	431	459	566	604	645

a Actuals, or annual rates based on latest data.

China

According to the Japan External Trade Organization (JETRO), China's total external trade in 1970 could have totalled more than £1,660 million. If achieved, this would be a striking indication of the new direction of recent commercial policies. China's trade with major partner countries in the first half of 1970 totalled £626 million, an increase of 18 per cent over the first half of the preceding year. On the same basis of comparison China's imports were estimated to have grown by 43 per cent, but exports declined, resulting in a trade deficit of more than £40 million. Trading partner figures analysed by JETRO showed that the growth of China's imports was attributable mainly to an increase of 77 per cent in purchases from Japan. From Japan and Western Europe together, Chinese imports rose by 61 per cent; at the same time exports to those countries increased by only about 3 per cent.

Britain passed £50 million in its sales to the Peoples Republic in 1969, but the total for 1970 fell to £45 million. A large proportion of British sales to China is accounted for by non-ferrous metals and industrial diamonds which have been stockpiled since the end of the Cultural Revolution. British exports of engineering products and complete plant and equipment have fallen off in recent years.

China is the second largest agricultural producer in the world. It is a leading producer of rice, millet and sweet potatoes; the second largest producer of soya beans, sorghum, tobacco and barley; the third largest of maize, cotton and pork, and the third or fourth in wheat. Of the total sown acreage of food crops in China, from a fifth to a quarter is in rice and wheat. China recorded a foreign trade surplus in food products for the fourth straight year in 1969. Increased exports of livestock and livestock products, poultry and eggs, sugar and fresh and processed fruit and vegetables probably offset declines in rice and soya beans—China's two major farm exports. Hong Kong, Singapore and Japan are China's main agricultural markets. China provides 40–45 per cent of Hong Kong's agricultural supplies.

According to press reports in March 1971 the first "concrete" economic statistics to come out of China since 1958 put 1970 grain production at 240 million tons. When measured against an estimate of population approaching 800 million this is still well short of the official target of 400 kilos of grain per

TABLE 13

EXPORTS FROM THE COMMONWEALTH TO CHINA

£ million

	1966	1967	1968	1969	1970*a*
Australia..	30	68	37	50	54
Canada ..	61	30	63	47	57
Ceylon ..	13	12	14	17	18
Hong Kong ..	4	3	3	3	4
Malaysia ..	—	2	10	19	12
Pakistan ..	11	12	11	12	15
Singapore ..	16	11	11	24	12
United Kingdom ..	34	39	29	55	45
Other Commonwealth ..	10	14	10	13	14
Total ..	179	191	188	240	231

a Actuals, or annual rates based on latest data.

TABLE 14

IMPORTS INTO THE COMMONWEALTH FROM CHINA

£ million

	1966	1967	1968	1969	1970a
Australia	9	10	12	14	14
Canada	7	8	9	11	8
Ceylon	16	14	17	20	20
Ghana	3	—	1	2	3
Hong Kong	173	143	167	186	195
Malaysia	28	31	33	33	31
Nigeria	5	6	4	6	8
Pakistan	10	12	12	11	13
Singapore	32	45	63	57	52
Tanzania	4	3	5	5	12
United Kingdom	34	30	34	38	34
Other Commonwealth	8	8	12	11	11
Total	329	310	369	394	401

a Actuals, or annual rates based on latest data.

person per year. China continues to import wheat, in spite of rising production and 40 million tons of reserves, partly because it exports rice at a higher price and partly because it donates large quantities of grain to North Vietnam and other countries.

Wheat sales to China have been of major importance to Australia and Canada. The good grain harvest in 1970 enabled China to postpone negotiations for Australian wheat, although reportedly preparing for bad harvests in 1971 following winter droughts. During the course of 1970 it was disclosed that China would take 98 million bushels of wheat in 1971—the largest one-year contract ever signed between Canada and China.

TABLE 15

TRADE OF THE COMMONWEALTH WITH MAIN TRADING AREAS

	1966	1967	1968	1969	1970a
			£ million		
Exports to:					
Commonwealth	3,907	3,825	4,454	4,844	5,349
United States	3,454	3,842	5,561	6,288	6,702
E.E.C.	1,991	1,886	2,382	2,840	3,253
EFTA (Continental)	859	885	1,029	1,238	1,457
Japan	693	857	1,105	1,345	1,569
Eastern Europe	523	454	570	575	702
China	179	191	188	240	231
Other countries	2,204	2,263	2,926	3,326	3,857
Total	13,810	14,203	18,215	20,696	23,120
Imports from:					
Commonwealth	4,083	4,056	4,694	5,042	5,660
United States	4,215	4,714	5,995	6,528	6,840
E.E.C.	2,009	2,224	2,676	2,861	3,245
EFTA (Continental)	961	1,071	1,308	1,422	1,614
Japan	652	747	1,010	1,189	1,470
Eastern Europe	431	459	566	604	645
China	329	310	369	394	401
Other countries	2,499	2,767	3,536	3,782	3,982
Total	15,179	16,348	20,154	21,822	23,857
			Percentage of total trade		
Exports to:					
Commonwealth	28	27	24	23	23
United States	25	27	31	30	29
E.E.C.	14	13	13	14	14
EFTA (Continental)	6	6	6	6	6
Japan	5	6	6	7	7
Eastern Europe	4	3	3	3	3
China	1	1	1	1	1
Other countries	17	17	16	16	17
Total	100	100	100	100	100
Imports from:					
Commonwealth	27	25	23	23	24
United States	28	29	30	30	29
E.E.C.	13	14	13	13	14
EFTA (Continental)	6	7	7	7	7
Japan	4	5	5	5	6
Eastern Europe	3	3	3	3	3
China	2	2	2	2	2
Other countries	17	15	17	17	15
Total	100	100	100	100	100

a Actuals, or annual rates based on latest data.