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## Pakistan: The nuisance of tied aid

Intereconomics

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# COMMENTS

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## *Soviet Union*

### **Foreign Trade Doubled**

The foreign trade of the Soviet Union—the EEC's most important trading partner in the East—has on average doubled in the years from 1958 to 1966, according to a report by the Press and Information Service of the European Community. According to Soviet statistics in 1966 the total foreign trade reached a value of \$ 16.7 billion compared with, \$ 8.6 billion in 1958. This is equivalent to an increase of 94 per cent. This is by no means an outstanding achievement when considering the relatively low starting point and also the fact that in the same period the volume of world trade increased on average by 87 per cent.

Soviet imports from the Federal Republic of Germany are valued at \$ 144 million. This means that Western Germany occupied fourth place only among the Soviet Union's trading partners in the West, after Japan (224), Great Britain (168) and France (160). Among the purchasers of Soviet goods the Federal Republic came third with \$ 188 million, after Great Britain (330) and Japan (238). Without a doubt the relatively weak position of the Federal Republic is partly attributable to the fact that its trade relations with the Soviet Union are subject to greater political tensions than is the case for other countries. For this very reason it is necessary to consider and to analyse the problems inherent in the trade between Western Germany and the Soviet Union without any emotion. To indulge in euphoric hopes that the relaxing effect of trade relations may spill over to the political atmosphere are as useless in this respect as vague fears of any dangers that may be lurking in any trade with the Soviet Union. If the trade with the Soviet Union is one day to rise above the present low level—between 1 and 2 per cent of the total German foreign trade—both sides must make constant efforts with a view to placing the more or less sporadic trade relations on the foundation of an international division of labour in accordance with economic realities. ge.

## *Pakistan*

### **The Nuisance of Tied Aid**

The debt service for foreign credits is causing increasing concern to the Pakistan Government. In the current year 16 per cent of the total revenue in foreign currencies already had to be spent on amortisation and interest payments on foreign loans, and by the early seventies this share is likely to exceed 20 per cent, if the present trend continues. As 20 per cent is

the limit the Government has set itself, it will in future attach greater importance to obtaining a more favourable proportion between "hard" and "soft" credits.

In addition to the concern about the debt service there is the nuisance of credits granted on condition that they must be used to purchase certain goods from the credit-granting country. At times such conditions diminish the effectiveness of foreign aid to a considerable extent. An outstanding example of this type of contract is to be found in the American iron and steel deliveries at prices that are far above world market levels. But Pakistan has also made similar experiences with deliveries from communist countries.

The Pakistanis have therefore suggested that such differences between contract prices and world market prices be paid for by the donor countries and be regarded by their governments as subsidies paid to their own exporters. The majority of the credit-granting countries are hardly likely to desist in the foreseeable future from their practice of insisting on linking their credits to the delivery of goods, and the Pakistan proposal would therefore appear to be a fair way out of the misery caused by Pakistan having to buy with expensive credits even more expensive goods. The Pakistan proposal also makes it abundantly clear what devious, nay nonsensical methods are being applied to compensate countries in receipt of foreign aid credits for the burdens imposed on them in the form of tied deliveries. In the last resort it is not only the receiving country that suffers but also the donor country which is expected to bear itself the additional cost arising from such contract terms, as the case of Pakistan shows. re

## *EEC*

### **Now It Is the Turn of the Others**

The Commission of the European Communities has undertaken a new drive to eliminate the obstacles in the way of international trade. Essential items on a list of obstacles to commercial trading are the American Selling Price, which it is for the Americans to abolish, and the adoption of the Brussels customs nomenclature particularly by the USA, Canada and Japan. Moreover, the Commission considers it desirable to start negotiations on the level of the duties to be charged on the basis of a unified valuation.

These two questions are known to have been broached during the Kennedy Round discussions, and in both cases promises were made to the EEC that the Euro-