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EEC: Now it is the turn of the others

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COMMENTS

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-

pean proposals would receive favourable consideration. But promises are apparently not being taken too seriously. For, meanwhile a whole year has passed, and the EEC is still waiting for these undertakings to be honoured. Instead of accelerating the dismantling of the non-tariff barriers to trade, there is, at least on the part of the USA, a reluctance—or so it would appear today—to consider any further liberalisation of trade for the present. There is of course no lack of facile justifications for such an attitude: there is the War in Vietnam, the dollar crisis and the need for protecting specific branches of industry. The USA evidently believes that its own problems can be solved at the expense of other states, and of the EEC in particular.

The EEC has repeatedly and clearly demonstrated its willingness to make concessions and to cooperate in the solution of such important problems, if only to safeguard the positions of its own member countries; the last time was when it agreed to an asymmetrical tariff reduction during the Kennedy Round negotiations. The Six would therefore be justified in demanding to see at last something in return. The ball is now in the court of the other parties, it is their turn to play, if the liberalisation of trade, which was begun with such high hopes, is not to come to a standstill or is not to make way for a renewed escalation of protectionism. rd.

United States

New Export Expansion Measure

In 1967 the USA had to put up with an unexpectedly high balance-of-payments deficit of $ 3.6 billion — as well as with a considerable decline in its gold reserves. Not content with tackling the items that are in the red, the US Government also seeks to bring its influence to bear on items that show a surplus. To the latter belongs traditionally the balance of trade. In the past few years US imports have been increasing faster than exports, and, as a consequence, the export surplus showed only a marginal increase to $ 4.1 billion. This surplus was by now far from sufficient to make up for the deficits of other balance-of-payments items, and for this reason the expansion of exports has once again become one of the main starting points for the balance-of-payments policy.

Among the measures designed to facilitate exports a particularly important role has been assigned to the financing of exports by the Export-Import Bank of the United States, whose maximum liability limit was some time ago raised by 50 per cent to $ 13.5 billion. Within this raised maximum liability limit the US Government wishes to see set aside a special fund of $ 500 million to be used for credits which the Export-Import Bank has hitherto been prevented by its rather conservative statutes from granting. The type of transactions that it is intended to facilitate concerns the granting of credits for exports to developing countries that have hitherto not been enjoying credit facilities because the prospects of getting the loans repaid were considered unfavourable.

This extension of credit facilities and the creation by the Export-Import Bank of a special fund will further intensify competition for terms on the world markets. True, for the time being other countries are likely to refrain from counter-measures because of the unfavourable balance-of-payments position of the USA. But if the USA should rely too much on its export facilities and should increase them even further, its competitors are bound to abandon their restraint and to take counter-action. hch.

Great Britain

Risk to the Balance of Payments

Six months after the devaluation of the pound sterling it is becoming increasingly apparent that all the official estimates of the positive effects the measure was to have on the British balance of payments have been too optimistic. According to the latest estimates the balance of payments for the current year is now expected to be by £ 450 million less favourable than had been expected. Particularly disquieting is the fact that despite a 9 per cent rise in import prices owing to devaluation the volume of imports also increased considerably during the first three months.

This is due to the failure on the part of the British Government to take in time the requisite monetary and fiscal measures to curtail domestic demand, particularly private consumption and state expenditure sufficiently. Only now after the budget of March 19th provided for increased taxation and after the even more recently introduced credit restrictions came into effect demand should be adequately curtailed. The greatest danger threatening the recovery of the British balance of payments in the coming months can therefore be expected from the trend of prices and incomes. Particularly important is to see to it that excessive wage increases do not nullify the reduction of purchasing power that has been achieved by tax increases and that such wage increases do not cause a rise of prices through increased production costs. The creation of a special Department of Employment and Productivity under Mrs Castle and the reformulation of the law governing prices and incomes show that the government fully appreciates the importance of its prices and incomes policy. It is, however, doubtful whether the wider possibilities of intervention provided for in the new law and the extension of the delaying powers of the Prices and Incomes Board in cases where wage increases exceed, the upper limit of 3½ per cent will prove effective in stopping further wage increases. For adherence to this norm in a period of sharply rising prices is equivalent to a lowering of the standard of living, which the trade unions are certain to resist. Quite apart from the dangers the pound is exposed to as a reserve currency, there is for the time being still the uncertainty as to whether or not the efforts to restore the balance of payments will prove successful. me.