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Article — Digitized Version

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Intereconomics

Suggested Citation: Abrahamson, George (1971) : Commonwealth view of british membership, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 06, Iss. 4, pp. 107-110, <http://dx.doi.org/10.1007/BF02926994>

This Version is available at:

<http://hdl.handle.net/10419/138465>

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Commonwealth View of British Membership

by Dr George Abrahamson, Reading

The British efforts to join the European Economic Community are being watched in the Commonwealth with composure and without antagonism because their inevitability is acknowledged everywhere. As the opening postures and gambits gave way to hard bargaining and mutual concessions, Great Britain's overseas partners set about making their own enquiries and assessments and found to their relief that British entry into the Community need not have the drastic and injurious repercussions on their own trade which they had feared. It is generally appreciated in Commonwealth and non-Commonwealth sterling countries that their essential interests are borne in mind by the negotiators, that the British tariff preferences have in any case ceased to serve their original purpose and that the extension of the European Common Market corresponds to economic logic.

British entry into the Community will certainly force the overseas countries with preferential access to the protected British market to face more and stronger competition abroad and to loosen further their ties with British firms and institutions—in short, to grow up more quickly. But for most of them this new situation is only one reason more for the policy of diversification, import-substitution and industrialisation dictated by other considerations. If this enforced trend runs counter to the economist's ideal of international division of labour, it is in harmony with the nationalist tendencies in the formerly colonial territories. For these the weakening of the British connection is part of the decolonisation process, while the older Commonwealth members regard it as evidence of their own growing maturity and independence.

Only the small Commonwealth countries in the Mediterranean region see the enlarged EEC as

a welcome means of turning the historic link with Great Britain into a wider European association for themselves. Malta has already concluded a five-year preferential trade agreement with the Six under which the island, in return for successively increasing cuts in import duties on EEC exports, is granted facilities for its traditional shipments of farm produce, abolition of quantitative restrictions and an immediate substantial cut in the Common Market tariffs for its industrial exports. The status of Gibraltar will not be settled until the EEC negotiations with Great Britain have advanced further but agreement exists in principle on a "Heligoland" solution which would preserve the Free Port status outside the common customs territory while the Treaty of Rome would apply in general; such an arrangement will suit the Gibraltarians and fit in with their policy of self-sufficiency.

A Wide Range of Opinions

Cyprus has also stated its wish to follow Great Britain into the Common Market and applied for Associate membership; relying at present on the British market for most of its primary products, the island hopes to gain in continental Europe what it may lose in trade with Great Britain. Like other Mediterranean countries, Malta and Cyprus depend on European outlets and on equitable terms of access compared with their competitors in and outside the Community. Associate status on such terms is indispensable to them but also deemed sufficient and practicable.

A diametrically opposite view of the British access to the Common Market is taken by the advanced members of the Commonwealth, and also by the Republic of South Africa (which forms the principal part of the Non-Commonwealth Prefer-

ence Area), with their increasingly diversified and sophisticated economies. Remote from the British Isles and Europe, politically stable, large enough to be self-sufficient and blessed with great mineral and agricultural potentialities, these countries have been able to turn the British preferential system to good use for marketing all their primary products and developing their secondary industries. With the loss of preference some of their agricultural exports will become less profitable but, bearing seasonal differences in mind, few will be unable to compete with European produce in the British market while past experience proves that, despite the Common External Tariff, they can penetrate the market of the Six, and this barrier will be even less of a hindrance if the trend towards trade liberalisation in the world is not cut short.

To these older Commonwealth countries their relative standing compared with outside competitors in the Americas is more relevant than the advantages of their European rivals in the enlarged Community. They have prepared for changes in Europe by fostering their trade links with other overseas countries, notably the fast-growing Japanese market, and are convinced that these will provide more than adequate compensation in the long term for any contraction in European outlets, the more so as their principal export commodities such as wool and minerals command a truly international market, are generally moving untrammelled by tariff and other trade restrictions and benefit from a steadily expanding world demand. Besides, the substantial improvement of their shipments of raw materials and semi-manufactures to EEC destinations over recent years suggests that similar exports to Great Britain may profit from the momentum of Community membership.

Special Cases:

New Zealand and the Sugar Producers

New Zealand is less favourably placed in that its economy is still largely based on farming and meat is assuming even greater importance. There has been only a relative decline in dependence on the British market hitherto while the large expansion of trade with the USA and Japan has brought little relief to traditional fatstock and dairy farmers who have yet to adapt themselves to the different tastes and requirements of these countries. The British market for butter, cheese and lamb remains essential, and New Zealand farmers are worried not only about the likely contraction of their sales but also about the effect on prices of the change in British support for domestic agriculture from deficiency payments to import levies. It is however conceded on all sides, if

somewhat grudgingly in some EEC quarters, that a transitional arrangement is necessary for New Zealand farm produce.

A special solution, it is likewise agreed, must be found for the Commonwealth countries whose economies are based on sugar. The need to give them special consideration has been stressed by British spokesmen and in principle accepted by the EEC negotiators though they do not want to settle the details until the issue of the Commonwealth Sugar Agreement has been clarified. The countries in the Caribbean, Pacific and Indian Ocean are only too well aware of their weakness but hope to be given Associate status, if for no other reason because the issue, however vital from their point of view, is a small matter in the wider context of EEC enlargement.

Options Open to the Africans

The African Commonwealth countries are now considering the Association options offered to them by the EEC. Their principal export commodities mostly enjoy free entry into Great Britain and the Community. For others tariff rates in the unprocessed state are generally low. Any changes in these are considered insignificant compared with the protection given to processors inside the Community. The Commonwealth countries in Africa feel that access to the Common Market on similar terms as conceded to the francophone countries is essential to them and will therefore all exercise an option although each will choose the particular form suiting its individual position in the light of any changes which may be made in the next Yaounde Convention. The African Commonwealth States are perhaps less conservative and more world-open than the francophone countries and also intent on developing regional associations amongst themselves. That these need not be confined to Commonwealth countries is shown by the negotiations for an extension of the East African Community (Kenya, Uganda and Tanzania who have already negotiated EEC association by the Arusha Agreement) with Ethiopia, Somalia and Burundi as well as Zambia. It may even be hoped that such co-operation will bring English- and French-speaking territories in Africa into closer contact.

Asians Turning Away from Europe

The Asian members of the Commonwealth have, in contrast, shown little interest in links with the EEC. India and Pakistan have had talks with the Community about their trade in textiles but the stage of industrialisation reached by them makes arrangements of the Yaounde or Arusha type

unsuitable while their growing trade links with fully industrialised countries elsewhere prevents them from offering an adequate equivalent for any European trade concessions. The Commonwealth territories farther to the East incline even more towards increasing their links with America, Australia and Japan and have the advantage that their main exports are mostly free from trade restrictions. Hongkong is a special case with difficult problems of its own.

It will be seen that, subject to satisfactory transitional arrangements for New Zealand, the sugar producers and some minor interests which should not present insuperable difficulties, the overseas countries linked to Great Britain by the preference trade system expect no lasting disadvantages to their trade to result from British membership in the European Community. Unlike previous applicants for Associate status, their aim in regard to the Common Market is not to gain advantages over competitors outside the charmed circle but to avoid being discriminated against in favour of insiders, and this they hope to achieve. The trend to diversification and import-substitution will no doubt be reinforced, existing links with industrialised countries outside Europe strengthened and regional associations like those in East Africa and the Caribbean pursued further.

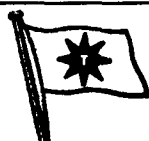
In considering their interests adequately safeguarded provided access to the Six is assured on terms no less onerous than available to foreign competitors, the Commonwealth countries are perhaps taking the British connection too readily for granted. Loss of Commonwealth preference coupled with discrimination through the Common External Tariff is bound to be felt in the case of many lesser agricultural and industrial products even if the squeeze is applied gradually, and it seems that the consequences of this multitude of minor but in toto significant changes have not yet been fully appreciated. There is in

particular the problem of the poorer and more backward countries which have no favoured export commodity to ease the transition but must compete in price and quality with more advanced and efficient producers inside the Community. Can they count on continued financial aid from London or will they have to look to Brussels in future?

Help Needed for Industrialisation

It must also be feared that whatever fillip should in theory be given to processing industries if they are exempted from the—in part very high—Common External Tariff will in practice be nullified by the elaborate price mechanism for EEC agriculture and by non-tariff restrictions. Processing indigenous mineral and vegetable raw materials could be one of the most promising starting points for industrialisation in developing countries provided their efforts are not thwarted by discriminatory treatment of modified basic materials in advanced countries. Foreign mining and plantation companies have been tardy in extending their operations vertically despite cheap labour and transport savings, and the unhelpful tariff and quota policies of European importing countries are held partly responsible for this.

The African countries want their mineral resources, as their chief economic assets and foreign currency earners, to be under national control as a matter of principle and, feeling particularly vulnerable to the power of big multinational organisations, fear the influence which the latter can bring to bear by virtue of their financial links with European users of African primary products. A confrontation between them and groups of developing countries like OPEC and CIPEC however does nothing to advance industrialisation. The Africanisation policy pursued, largely for internal political reasons, in countries like Ghana and Uganda and Government interference in labour and finance decisions of foreign-managed com-



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panies has also discouraged British companies from extending their productive interests in Africa, and other European organisations will not be eager to seek risks shunned by more experienced British firms.

Investment Opportunities—and Obstacles

The capital flow to stable Commonwealth countries has not been impeded by insufficient capital formation in Great Britain, except insofar as it has caused the British Government to discourage institutional portfolio investment in overseas sterling countries and to tighten taxation on profits from operations abroad. British mining finance houses, oil groups, etc., have continued to provide venture capital for worthwhile projects in Commonwealth developing countries even where private interests took fright because of political instability and irresponsibility, and the UK Government has stated that it is considering ways of encouraging private investment in developing countries. Free capital movement inside the EEC may however divert private investment funds from sterling to non-sterling countries offering similar opportunities. British banks in overseas countries have taken tentative steps towards providing or negotiating finance for projects too small to interest international agencies and may be able to do more in co-operation with European groups as yet lacking their local knowledge and experience.

The capital requirements of the developing countries however are great, and the road from the initial capital outlay to the repatriation of profits from productive operations so long and fraught with pitfalls that only large international organisations can undertake major tasks by themselves while private interests are reluctant to incur the risks involved without official guarantees of a kind available to American and some European overseas investors but not hitherto offered by the British authorities. The Commonwealth developing countries have come to rely on United Nations agencies for loans to cover projects which are unattractive to private investors but hope that British participation will open the European Development Fund to those who subscribe to the Yaounde Convention. This however would probably do no more than offset the simultaneous phasing-out of bilateral aid from London. The establishment of regional development banks may help to channel the limited amount of investment finance and aid available to the most deserving outlets.

Clearly Great Britain's part in all this will be influenced by the efforts for European monetary union and by sterling's future in Europe. The

diversification of the external trade of the Commonwealth countries and the various sterling crises in the past have caused them to reduce their currency reserves in London. The 1968 Basle guarantees for Overseas Sterling Area balances in London, due to be renegotiated next spring, the extension of national currency bases by Special Drawing Rights and the calmer atmosphere in the international foreign exchange markets as well as the improvement in the balances of payments of important OSA countries have made the currency issue less urgent. When pressure on sterling still emanates occasionally from the OSA under current conditions, it is because of private money movements, usually of a non-commercial nature, rather than because of changes in the member countries' reserves.

The Place of Sterling

The diversification of OSA reserves away from sterling has however made clear that partial resort to other currencies for reserve and trading purposes does not eliminate the consequences of basic imbalances and in particular the effect of deficits in "invisibles". These are growing in most overseas Commonwealth countries, and for the OSA as a whole both in dealings with Great Britain and non-sterling countries, partly due to the servicing of foreign debts at high rates of interest. There can be no doubt that the "invisible" transactions of overseas sterling countries must receive attention during the financial negotiations between Great Britain and the Community. The inflationary trend in all major industrialised countries has aggravated the discrepancy between import and export prices in the primary producing countries of the Commonwealth. "Imported inflation", though usually milder than the disease contracted directly, has the drawback that it cannot be cured at source. Overseas Commonwealth countries fear that British compliance with EEC farm support and fiscal policies will hasten the inflationary processes in Great Britain.

The applications for Associate status by Commonwealth countries do not, fortunately, involve any of the political issues which have bedevilled the negotiations with certain Mediterranean States nor are they likely to affect the attitude of the EFTA neutrals to the Community. Political difficulties of a different kind may however arise in the case of Commonwealth countries which eschew identification with the West or accept development aid from communist sources. The financial and political problems involved by British EEC membership for overseas Commonwealth countries may prove more stubborn than those in the field of commerce.