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Pakistan's quitting the commonwealth

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To begin with, foreign aid cannot be removed from politics because it is taxpayers' money handed over to recipient governments. The idea of de-politicising government to government aid is self-contradictory. Moreover, like the rest of us, the members and staffs of the various international agencies have usually very definite political and personal objectives which they wish to promote. This is reflected in many of the publications of the international agencies on the subject of economic development and on the relation between rich and poor countries, publications in which systematic and objective reasoning is often totally subordinated to political purposes. Familiar examples include *Towards a New Trade Policy for Development* (New York, 1964) known as the Prebisch Report, and *Partners in Development* (New York, 1969), the Pearson Report.

Multilateralisation of Aid

Moreover, multilateralisation severs all contact between the supplier and the user of aid funds which is likely to make their use even more wasteful than it is already because the interest of the supplier of funds in their use tends to promote their effective deployment.

Many advocates of multilateralisation of aid favour this course as a step towards an appreciable

measure of the equalisation of income and living standards internationally. However, any move in this direction would have most far reaching implications which are widely ignored. The general case for redistributive taxation implies a basic uniformity in living conditions and requirements. These differ enormously between many rich and many poor countries, as is obvious for physical requirements, but is true also of social conditions. The meaning and significance of income differences and the concepts of riches and poverty depend greatly on the specific physical and social context. For instance, recipients of welfare payments in the USA usually regarded as poor, have higher conventionally measured incomes than African chiefs or many landowners in India, who are considered prosperous in their countries.

Moreover, international income differences reflect the operation of the underlying personal and social determinants of material achievements. Attempts substantially to reduce income differences require therefore close and intensive control over people's lives, that is, the creation of great inequalities of power. The more diverse the conditions, and the more deep-seated the causes of diversity, the more intensive is the compulsion required to standardise them. A large measure of international standardisation of material conditions postulates world government with totalitarian powers.

Pakistan's Quitting the Commonwealth

by D. H. Hamdani, Toronto

In the beginning of 1972 Pakistan broke with the Commonwealth after an association of nearly 25 years. Apart from the political implications that formed the basis of this decision and that may follow from it, there are certain economic factors which merit attention.

It is not unfair to say that the primary advantage of membership in the Commonwealth, in so far as the less developed countries (LDCs) are concerned, lies in economic benefits that it bestows. Though its economic usefulness has been declining partly as the result of the economic difficulties of its senior member, Britain, and partly as the result of the changing international trade patterns and the emergence of new trading blocs, it has been beneficial to members in a number of ways. Pakistan, for example, has been enjoying good trade relations with the countries of the Common-

wealth with a few exceptions. During the second half of the 1960's, 20 p.c. of its imports came from and 23 p.c. of its exports went to the Commonwealth. It has also been aided in its economic development by the industrially advanced members. In addition, a large number of Pakistanis took advantage of the liberal immigration policy applicable to the Commonwealth citizens and migrated to Britain mostly before 1962 and are now a rich source of foreign exchange earnings for their home country.

It is, therefore, relevant to ask: what are the economic consequences of pulling out of the Commonwealth? The answer, of course, depends upon what benefits accrue to the member countries. There are three main advantages. First, it serves as a trading area within which imports from member countries are accorded preferential tariff treatment. Second, a large portion of the bilateral economic aid given by Australia, Britain and Canada goes to the economically less developed members. Third, migration is easier and migrants enjoy more privileges than those coming from non-member countries.

These issues are discussed here in the context of the future economic relations between Pakistan and Britain because UK accounts for two-thirds of all the Pakistani imports from and more than one-half of all the exports to the Commonwealth. Secondly, Britain has been the largest donor of bilateral economic assistance in the Commonwealth although Pakistan has received more aid from Canada in recent years. It is doubtful whether Canada will whittle down aid to Pakistan simply because it has quit the Commonwealth.¹ Thirdly, it is only in Britain where the Pakistanis are concentrated and where their status is likely to be affected.

The Commonwealth provides a protected market in the sense that imports from members are assessed at lower customs duty than those from non-members. This has the effect of keeping the prices of imports from member countries lower, giving them competitive advantage. This concession is not necessarily lost to Pakistan because both Eire and South Africa, having left the Commonwealth years ago, continue to enjoy the preferential tariffs as outsiders.

Decreasing Advantages of Tariff Preference

The tariff preference, however, is not so advantageous as it sounds, and both its magnitude and coverage have been declining. Pakistan enjoys, for example, no concessions on rice because it is not a dutiable commodity in Britain. Moreover, under the Kennedy Round of Negotiations on generalised tariff preferences, UK, like many other industrial countries, has reduced customs duties on imports from all LDCs, consequently reducing the comparative advantage of the products of the Commonwealth countries. Some of the commodities thus affected are of particular interest to Pakistan. The duty on raw hides and skins, for

example, has been completely eliminated regardless of the source of supply. The tariff rates on sheep's and lamb's wool and raw cotton have been slashed by 50 to 99 p.c.²

The textile manufactures which are of great importance to Pakistan have also come under the generalised preferences. This is one export commodity for which Pakistan would want most to find a reliable and protected market. But in this area also, its competitive position vis-à-vis other countries from outside the Commonwealth suffered a setback in the British market. The average rate of duty on textiles imported into UK from LDCs has been cut to 17 p.c. and that on clothing reduced by 23 p.c. to bring it down to 23 p.c.³ On the other hand, Britain has imposed 15 p.c. duty on the Commonwealth textiles which were exempt until December 31, 1971.

The gradual erosion of the comparative advantage that the products of the Commonwealth countries enjoy in the British market will be accelerated now that it became a member of the European Economic Community in 1973, and eventually completed by the end of transitional period in 1977 when Britain must adopt common external tariffs against imports from all countries outside the EEC. Consequently, the products of EEC will have a tariff preference over those of the Commonwealth.

Declining Trade

Though agreement on generalised tariff preferences for the products of all LDCs and the acceptance of Britain in the EEC are of recent origin, trade among the Commonwealth countries has been relatively declining since the first half of the 1960s. Confidence in Britain as a trading partner was shaken when it tried for the membership of EEC in 1961. Subsequently, its balance of payments difficulties and resort to devaluation to resolve them further damaged its reliability both as a trading partner and as a source of economic assistance. These developments, reinforced by Japan's emergence as a major economic power, have resulted in search for markets outside of Britain and the Commonwealth. Consequently, Britain, which used to rank second as purchaser of the products of LDCs, has slipped to third position behind the United States and Japan.

Pakistan's trade with Canada and Australia has always been very small. Britain accounts for the lion's share and now with UK itself slipping away from the Commonwealth Pakistan has very little to lose by its decision to withdraw from it.

¹ For detailed discussion, see D. H. Hamdani, *Exit from Commonwealth and Pakistan-Canada Relations*, in: *Voice of Pakistan*, Vol 1 (10) August 1972.

² United Nations, *World Economic Survey, 1969-70*, New York: United Nations 1971, Table A. 33.

³ *Ibid.*

Almost all of the bilateral economic aid that Pakistan receives from within the Commonwealth comes from Britain and Canada. Recently, British aid, mostly in loans, has averaged about \$ 20 mn per annum and has displayed two salient features. First, Britain no more figures prominently in the list of countries which give aid to Pakistan. It ranks behind Canada, China, West Germany, Japan and USA. Its aid is approximately one-half of the Chinese and less than one-half of the Japanese disbursements, not to speak of the comparison with the US aid of which it constitutes only 9 p.c. Second, if the amount of aid disbursed to Pakistan is measured as a proportion of the British aid to all Asian countries, it turns out that Pakistan's share has been dwindling which may be an indication of either a shift in the priorities of the British aid programme or Pakistan's desire to reduce its dependence on Britain. In the fiscal year 1961-62 Pakistan accounted for 24 p.c. of the total British gross loans to Asia and by 1969-70 this share had been reduced to less than 15 p.c.

One must not ignore the obvious fact that economic aid is beneficial to Britain itself and this has often been stated in its official documents.⁴ Moreover, the aid-giving countries, where the factories operate at less than full industrial capacity, which is generally the case in the capitalist economies and has been true of Britain, tend to benefit from aid. It is for this reason, in addition to the balance of payments considerations, that much of the economic aid is given with the condition that it will be spent on purchasing goods and services from the donor country. In recent years 91 p.c. of the British aid to Pakistan as compared with 56 p.c. to all countries has been partially or fully tied. Very modest estimates suggest that approximately 60 p.c. of this aid is spent in Britain.⁵

Future Aid Policy

What is more, a proportion of the aid leaks out as a subsidy to exporters in the donor country. Perhaps realising that aid is tied, the exporters sometimes quote exorbitant prices. A notable example, and by no means the only one, of this practice came to notice when in 1961 Britain gave financial assistance for the construction of Karachi Shipyard and Engineering Works. The price of stand-by engine lubricating pump quoted by the British exporters was 317 p.c. higher than that quoted by West Germany.⁶

⁴ Overseas Development, *The Work of the New Ministry* — August 1965 (Cmnd 2736).

⁵ Bryan Hopkin and Associates, *Aid and the Balance of Payments*, in: *Economic Journal*, Vol LXXX (317) March 1970, Table IV.

How Britain reacts to Pakistan's withdrawal from the Commonwealth depends upon what the ethos of its aid programme is. Only if the aid is given in the hope of a political quid pro quo can there be some case for revising the aid policy. Apart from that, the size of its aid programme will be largely affected by its trade performance in the European Economic Community. If it experiences deterioration in its balance of payments, as the opponents of its entry maintain and which appears to be a distinct possibility in the initial years if its present economic ills are not cured, the total aid is likely to be curtailed. A further reduction may come if Britain finds it compulsory to contribute to the European Development Fund established by the EEC to help its associates in Africa.

Problem of Migration

The question of 200,000 Pakistanis living in Britain is, of course, of great moment and it is natural for Pakistan to be concerned about them. They are also very important to Britain inasmuch as they provide essential services and contribute to its growth and wealth. Dislocation of these people will cause not only immediate vast adjustments in the manpower policy but also entail massive costs to train and educate enough people to replace them unless resort is made to attracting professionals and skilled workers from other countries.

A very large number of the Pakistani immigrants will easily meet the five year residence requirement to be eligible for citizenship because the heaviest migration to Britain took place before restrictions were imposed in 1962. But it is likely that some of them will run into language problem. Others who have not completed the residence requirements might be allowed some transitional period — perhaps three years as was the case with South Africans when South Africa ceased to be a member of the Commonwealth.

Apropos the future implications of Pakistan's withdrawal, very little change is likely to occur. Britain has gradually been limiting the entry of Pakistanis, as of other Asians. In 1962 restrictions were imposed on the number of Asians to be admitted every year to Britain. In 1967 limitations were imposed on the British subjects of Pakistani origin living in Kenya who could settle in Britain. Now with the new immigration policy Pakistani immigrants would be put at par with those from outside the Commonwealth even if Pakistan did not withdraw from it.

⁶ This is true of all donor countries which give tied aid. See, Mahbub ul Haq, *Tied Credits — A Quantitative Analysis*, in J. H. Adler (ed), *Capital Movements and Economic Development*, New York 1967, Statistical Appendix Table 2.