

associable Commonwealth countries. At the same time, the elimination of the tariff advantages they enjoy over non-Commonwealth non-EFTA countries will also be phased out over a longer period.

The adverse effects flowing from the elimination of Commonwealth Preferences and the adoption of the CET will be considerably alleviated by the operation of the British GSP, which allows for unlimited duty-free importation of most industrial products and a substantial number of agricultural and processed goods. Although the ACCs will lose the advantage they enjoy over non-Commonwealth developing countries, they will have access to the British market in respect of the products covered by GSP on the same terms as the EEC, EFTA, and associable developing countries. But under the terms of the Treaty of Accession, the UK system will need to be harmonised with the Community GSP after January 1974. Since the latter is more restrictive, this will have further adverse effects on manufactured exports from the ACCs.

With respect to certain agricultural products, the consequences for the ACCs could be even more serious. This is because the EEC preferences here are restricted both in terms of products and the depth of tariff cuts. Furthermore, the level of protection for some of the relevant products is relatively high, and the main instrument for protection – the variable levies – are not covered by the preference scheme.

V SPECIFIC PROBLEMS OF INDIVIDUAL ASIAN COMMONWEALTH COUNTRIES

We can now draw upon the earlier analysis to focus on the specific problems faced by individual Asian Commonwealth countries. The difficulties faced by them will depend on the extent to which enlargement of the EEC will affect the access to different markets of their current and potential exports. It was noted earlier that this will affect not only access to the markets of the new members but also to those of the Six and a number of third countries with which the EEC has preferential trade agreements.

There are individual products of special interest to specific countries, but there are also changes of a more general nature which affect them all in varying degrees. The replacement of the British GSP by that of the Community will adversely affect the export opportunities for a wide range of manufactured and some agricultural products of current or potential interest to all Asian countries. Likewise, the rules on origin of products under the general preference schemes of both the UK and the EEC are much less favourable than those prevailing under the Commonwealth Preference system. Singapore will be particularly affected by them, as discussed in detail in the section dealing with her, but other countries will also be affected.

(a) India

Principal exports from India to all countries and to the UK and EEC are shown in Tables II and III. Some of the major exports such as tea, iron ore, engineering goods, chemicals, and manganese ore will not be affected by the enlargement of the EEC, though in the case of some manufactured goods, the extension of reverse preferences by the third countries to the UK and the possible increase in the number of new associates offering reverse preferences to the enlarged EEC could have an impact on Indian exports to these countries. The main products likely to be adversely affected in the UK and the EEC markets are as follows:

(i) Unmanufactured Tobacco¹

Exports to the UK and Irish Republic in 1970 amounted to 41.0 and 3.7m. lbs. respectively. In value terms, exports to the UK in 1969/70 were \$21.2m. In recent years India has been supplying some 12-13% of the total tobacco imports in the UK. This is largely due to the special marketing links that have been built up over the years.² Both in the UK and in Ireland, there is a heavy revenue duty on imports of unmanufactured tobacco, in the case of the UK amounting to 13 times the import value of the leaf. There is a small preference for Commonwealth imports at 2.6% less than the basic rate.

The EEC has much lower customs duties on tobacco, though cheaper varieties are taxed relatively more than the expensive ones. Furthermore, different countries have different excise and other taxes on manufactured tobacco. The UK will be required to replace its revenue duties by internal taxes and to conform to the EEC structure of customs duties by January, 1978. Indian exports to the UK will be faced with increased competition from the producers in the Community and Turkey, Greece, Yaounde and Arusha countries and possible new associates like Malawi, since imports from these countries will be duty-free while those from India will bear the CET. They are likely to be adversely affected especially as most of the new competitor produce cheaper varieties of tobacco, as does India.

(ii) Leather and Leather Goods

Leather and leather manufactured exports to all sources amounted to over \$96m. or a little less than 5% of Indian exports. These are

¹ For an excellent discussion of the world trade in tobacco and the implications arising from the enlargement of the EEC, see the Commonwealth Secretariat Paper, *Tobacco—The Position of Commonwealth Countries* (June, 1972).

² In this connection, it might be pointed out that in the 1939 Indo-UK Trade Agreement, the latter undertook to take all practical measures to encourage the marketing of Indian tobacco for use by British manufacturers.

admitted duty-free in the UK and have also been included in the UK preference scheme. The Community preference scheme also includes them, but as indicated earlier, the quotas for most items in this category had already been exceeded in 1970. Thus if the UK adopts the Community GSP, imports into the enlarged Community beyond a certain value will attract the CET. This could adversely affect Indian exports of this important product category.

(iii) Oil Cakes

Exports of oil cakes to the UK amounted to \$14.3m. in 1969/70. As shown in Table XIX these are admitted duty-free in the UK under the Commonwealth Preference, while the mfn rate is 15%. Although the EEC does not levy any tariff on oilcakes, the UK entry will result in the loss of Commonwealth Preferences and hence greater competition from countries such as the US and Argentina.

(iv) Sugar¹

Exports of sugar to the UK amounted to over \$3m. in 1969/70, and nearly 60% of this was sold at the negotiated price which has tended to be higher than the world market prices in most years. It has been agreed that until 28 February 1975 the United Kingdom is authorised to import, from the exporting countries referred to in the Commonwealth Sugar Agreement, quantities of sugar within the negotiated price quotas under that agreement, after which new arrangements for sugar imports from developing Commonwealth countries, including India, will be considered. If no satisfactory arrangements are made, this could affect Indian exports to the UK, as the EEC is currently a net exporter of sugar because of high internally supported prices.

(v) Textiles

Textiles of various sorts are the single most important export from India, and the UK forms a substantial market for them. At the same time, textile imports are subject to complex regulations in both the UK and the EEC; and different regulations apply to different categories of textile products. Here we shall consider three main varieties: cotton, jute and coir.

1. Cotton Textiles

Exports to UK of cotton piece goods amounted to \$25m. in 1968/69, \$20m. in 1969/70. They are subject to quantitative restrictions; in addition as from January, 1972, they have also been subjected to tariffs, though the rates are somewhat below the mfn rates. The EEC

¹ For a full discussion of the sugar problem for Commonwealth countries, see the Commonwealth Secretariat Paper on *Sugar in the Commonwealth*, (March, 1972).

has entered into a bilateral agreement with India, as part of the GATT Long Term Arrangement for Cotton Textiles, which provides for fixed quantities of imports for different categories of cotton textiles. The arrangement is to run until September, 1973. In the meanwhile, the EEC preference scheme provides for tariff quotas for textile imports from the developing members of the GATT LTA on Cotton Textiles, including India. Some of the items in these categories have been placed in the sensitive group and quotas will be equivalent to the 1968 value of imports from these countries; for other products, the quotas will be based on the usual EEC formula. The UK, on the other hand, has not included cotton textiles in its scheme of preferences.

It is difficult to say how Indian exports of cotton goods will be affected by the enlargement of the EEC because of the extremely complex regulations relating to different sub-categories of these products. The present EEC system allows for expansion of exports from India for items which are calculated according to the usual formula for tariff quotas, but for other products, the exports may already have reached their limits. Furthermore, the conversion of bilateral into limited multilateral quotas under the Community's GSP may pose difficulties for Indian exporters. If the UK adopts the EEC preference scheme, the maximum exports permitted to India under country ceilings will probably be exceeded in most of the items, thus blocking further expansion of exports. Furthermore, competition among exporters of the LTA countries is also likely to erode the price advantages of tariff quotas.

2. Jute Manufactures

Jute products are the single most important export from India, and both the UK and the EEC are substantial markets. Currently, exports of jute yarn and fabrics are subject to global quotas in the UK, though licences for bags and sacks are given freely. Commonwealth exports benefit from duty-free treatment, while mfn rates are 10-15% for yarn, 20% for fabrics, and 17-25% for bags, sacking etc. Competition from non-Commonwealth sources is negligible as India and Bangladesh have a virtual monopoly. However, there is considerable competition from substitute products, both synthetic and natural.

India has an agreement with the EEC which expired in December 1972, and which provided for a gradually increasing quota. Negotiations are now underway for a renewal of this agreement. However, the operation of country quotas within the EEC has hindered jute exports to the Community. The CET on yarn is 8%, on fabrics 15-22% and on bags and sacks 15-20%.

Most of the jute products have been included in the UK scheme of preferences but have been excluded from the EEC. However, the latter has indicated its willingness to enter into a special agreement with the interested parties. Negotiations between India and the EEC

have been going on with a view to reaching such an agreement. After the British entry, the tariff preference on jute products in the British market will disappear and will be replaced by the CET. Unless satisfactory arrangements are made for jute products, they will suffer further from competition by synthetics and other substitutes.

3. Coir Products

These have entered the UK market duty-free and without any quota restrictions under Commonwealth Preferences. The mfn duty on mats and mattings is 20%, and 10% on other products. All coir products have been included in the UK preference scheme. Despite the existence of a joint Committee on coir products for several years, no agreement has so far been reached with the EEC. They are not included in the Community GSP but the EEC has indicated willingness to negotiate a special agreement with the interested parties. If no satisfactory agreement is reached, exports of coir products could be adversely affected because of the loss of Commonwealth Preferences and the discrimination in favour of the EEC producers in the UK market. The CET on coir manufactures (excluding yarn) is 23%.

(vi) Cashew kernel, walnuts, canned prawns, granite, tanning extracts of vegetable origin, cashew shell oil, turmeric: fresh, chilled or frozen fish; mangoes, guavas, tamarind, chillies, unground pepper, cinammon, cassia, celery seed, tejpat, senna leaves, lentils, papad, fresh vegetables.

These items make small but valuable contribution to Indian export earnings. They are currently admitted duty-free in the UK, but are subject to CET and have not been included in the EEC preference scheme. Full details of the import tariff in UK and the EEC are given in Table XIX.

(vii) Mushroom, saffron, prepared and preserved tropical fruits, nuts and vegetables, rice, bran and meal, purified rice cornflakes, mango slice in brine.

In respect of these items, Commonwealth preferences will be replaced by the CET. Although they figure in the GSP of the Community, the tariff reductions are marginal. Full details are given in Table XIX.

(viii) Certain Sensitive Manufactured Goods and Steel and Iron Products

Apart from the individual manufactured goods identified above, there is a wide range of simple consumer and investment goods which have been admitted duty-free into the UK market under the Commonwealth Preferences. Virtually all these products have been included in the UK general preference scheme. On the other hand, the Community GSP grants only tariff quotas on these products. It has already been

shown that for many of the items in these categories, the actual value of imports is already in excess of the tariff quotas. If the UK adopts the Community GSP, a wide range of these products will become subject to the CET. Thus the Commonwealth Asian countries along with other developing countries which are not able to negotiate a special agreement with the EEC will face greater competition in these products from producers in the enlarged EEC, EFTA and other countries with special trade agreements.

(b) Bangladesh

The major products of export interest to Bangladesh in the short run are raw and manufactured jute, tea and leather and leather goods. Raw jute and tea are admitted duty-free both in the UK and the EEC. There should thus be no problems from the British entry in the EEC. Virtually all of the tea was previously exported to Pakistan, but now new markets may have to be found for it. The position with respect to jute products has already been discussed above and is applicable to Bangladesh. The need to arrive at a satisfactory agreement is even greater for Bangladesh than for India as the country is more dependent on export earnings from jute products. Similarly, the remarks about leather and leather goods are equally applicable to Bangladesh.

Among the potential exports are marine fisheries, newsprint and paper, nitrogenous fertilizers, textiles, carpets, shrimps and fish-meal. The situation with respect to textiles, fish and shrimps has already been noted. Fertilizers, carpets and paper are admitted duty-free in the UK from the Commonwealth countries and have been included in its GSP. However, in the EEC they have been included among the sensitive items, and thus British entry in the EEC could make it more difficult for Bangladesh to develop exports of these products to the UK, if the latter adopts the Community GSP.

(c) Sri Lanka

The major exports to the UK are tea, coconut products, unmanufactured tobacco and rubber. The duty on tea has been suspended both in the UK and the EEC. Provided this is made permanent, exports of tea will be unaffected after UK entry into the EEC. However, Sri Lanka has been attempting to develop exports of packeted and instant tea. Both these items are imported freely into the UK under the Commonwealth Preference but attract a duty of 5% (legal duty 15%) and 12% respectively in the EEC. The duty on instant tea has been reduced under the Community GSP to 6%. The adoption of the EEC import tariff by the UK would be a setback to the efforts being made in Sri Lanka to

develop exports of tea in these forms, especially of instant tea where a large capacity has been created. These remarks are equally applicable to India.

Rubber enters duty-free both in the UK and in the EEC. Thus its exports should be unaffected by the enlargement of the EEC. On the other hand, exports of unmanufactured tobacco could suffer as a result of British entry into the EEC, as shown earlier.

Exports of desiccated coconut have amounted to \$5.8m to the UK in recent years.¹ There was a 10% tariff advantage under the Commonwealth Preference but this was removed after the introduction of GSP. Sri Lanka's main competitors are Philippines and Indonesia. The community has a 2% duty on this. This might give a slight advantage to the Pacific Islands if they join as associates.

Exports of coconut oil to the EEC and the UK in 1970 amounted to \$2.1m. and \$0.6m. respectively. Sri Lanka has enjoyed a 15% tariff advantage in the UK market over competitors like Philippines and Indonesia.² Furthermore, coconut oil has not been included in the British GSP. This preference will be replaced by the CET of the Community which ranges from 5% to 15% depending on the use to which the coconut oil is put. Thus exports of coconut oil could be adversely affected by the elimination of tariff preference over the Philippines and by the more advantageous access in the UK to Papua New Guinea and Pacific Ocean countries. In the EEC also, coconut oil exports might be affected by the competition offered by substitute oils from the African Commonwealth countries if they decide to seek association.

Ten per cent of Sri Lanka's cocoa bean exports go to the EEC where the CET is 4%. There could be increased competition from Nigeria and Ghana should they decide to seek association, as imports from the associated countries are duty-free. Sri Lanka is now trying to increase its production and exports of cocoa beans as part of its diversification policy.

While there are no other important exports which would be adversely affected, there may be greater effect on a number of minor and potential exports which Sri Lanka is trying to develop. These include cashew nuts, cocoa products, fish, shrimps, prawns, pepper, cloves, cinnamon, fruit juice, footwear, textiles and handicrafts. Most of these products enter the UK duty-free but will face CET or other restrictions after Britain's entry into the EEC.

¹ For a comprehensive discussion of tropical vegetable oilseeds and oils—groundnuts and groundnut oil, copra and coconut oil, palm kernels and palm kernel oil, and palm oil, see the Commonwealth Secretariat paper, *Tropical Vegetable Oilseeds and Oils—the Position of the Commonwealth Developing Countries* (April, 1972).

² A good discussion of the main products likely to be affected by UK entry into the EEC is contained in Nihal Wiratunga, *Britain's Membership of the European Economic Community and its implications for Ceylon*, Central Bank of Ceylon Staff Papers, Vol. 1, No. 2, September, 1971.

(d) **Malaysia**

Some of the major exports like rubber, tin and timber will be largely unaffected by the enlargements of the EEC. On the other hand, important exports like vegetable oils and canned pineapples may be faced with difficulties. Exports of coconut oil have been running at \$2m. to the UK in recent years, and as seen earlier, these could be adversely affected by the UK adoption of the CET. Exports of palm oil have risen very rapidly both to the UK and the EEC in the last five years. Nearly 40% of Malaysia's palm oil exports go to the UK. As with coconut oil, there is a Commonwealth tariff preference of 10%, which will be replaced by the CET. The latter is levied at different rates depending on the degree of processing and the end use to which the oil is put; the range is from 4% to 14%. With Britain's entry into EEC competition in the British market will increase from Indonesia and Yaounde countries; and in the EEC market, African Commonwealth countries like Nigeria could obtain advantageous access. These factors could have an adverse effect on Malaysian exports of vegetable oils, particularly palm oil, to the enlarged EEC.

Exports of canned pineapples to the UK have been in the region of \$5-6m. in recent years, in large measure due to the existence of the Commonwealth Preference. Again the duty-free entry will be replaced by the CET of 22-24% after UK joins the EEC. This will make it very difficult for Malaysia to maintain its present level of exports due to competition from the Yaounde and Arusha Agreement countries. This is shown by the failure thus far to expand exports of this product to the EEC.

As with other ACCs, some of the other minor and potential exports of fruits and vegetables, some processed and manufactured goods will become more difficult to develop because of the adoption by UK of the external commercial system of the EEC. If the UK adopts the EEC GSP, this may have adverse effects on Malaysian exports of plywood where the EEC country of ceiling of 20% tariff quotas is already less than her exports to the UK.

(e) **Singapore**

Singapore faces two kinds of problems arising from the enlargement of the EEC. First, in common with other ACCs, several of her exports would be faced with less advantageous access to various markets. Secondly, there is the possibility that Singapore may fail to derive full benefit from the GSP of the Community and the UK because of the conditions attaching to the rules on origin of products.

A substantial part of Singapore's export earnings are derived from her entrepot role which may, however, involve varying degrees of packaging and processing operations. Some of the important exports in this category are preserved fruit, especially canned pineapples, pepper,

and coconut and palm oil. We have already discussed the adverse market conditions that are likely to arise for these products as a result of the UK entry in the EEC.

Singapore's non-entrepot are manufactured goods and are highly diversified. Currently, they enjoy duty-free access to the UK market under the Commonwealth Preferences. But if Britain were to adopt the Community GSP, several of these exports would be faced with the CET because their total imports into the enlarged EEC would be in excess of the duty-free quotas. Among Singapore's main exports, this could be true of telecommunications equipment, various kinds of electrical machinery, footwear, glassware, cotton fabrics, cutlery, toys and paper products. This would have an adverse effect on Singapore's attempts to expand manufactured goods rapidly in the enlarged EEC.

The other problem likely to face Singapore concerns the rules of origin of products. This problem applies in varying degrees to all beneficiaries of the GSP systems, but is especially acute for a country like Singapore which relies heavily on entrepot activities and on imported materials and components for its manufactured exports. In the first place, the application of the rules of origin adopted by most preference-giving countries, including the UK and the EEC, is likely to result in a diversion of her entrepot and related functions to those developing countries from where the products originate in the first place; in Singapore's case, especially to Malaysia and Indonesia, but also to a lesser extent to other South and South East Asian countries. This is so because the rules of origin adopted by the preference giving countries specifically forbid the treatment of goods as originating from a developing country for purposes of GSP if they undergo storage, and simple processing or assembly. Thus products which would otherwise qualify for preferential treatment would be excluded if they were exported from Singapore only after undergoing simple operations.¹ These functions will, therefore be transferred to the country of first origin, thus depriving Singapore of a major source of revenue and foreign exchange earnings, although benefiting other countries.

¹ The following "minor" operations are listed by UK, which are similar to those accepted by other preference giving countries, including EEC:-

- (a) operations intended solely to ensure that the goods remain in good conditions during transit or storage, including chilling, placing in brine or any other solution, drying, spreading out, ventilating and removing damaged parts;
- (b) sorting, classifying, matching (including the making up of sets of articles), shifting screening, removing dust, washing, painting or cutting into pieces;
- (c) packing, repacking, or splitting into, or assembling into consignment;
- (d) marking or labelling;
- (e) mixing; or
- (f) simple assembly.

The system of rules on origin adopted by UK is identical to that of EEC.¹ Under this system, products originating in a beneficiary country are goods wholly produced in that country or other products which have undergone sufficient working or processing. The requirements of sufficient working or processing are based on the process criterion, i. e. working or processing is considered "sufficient" if the goods obtained become classified under a tariff heading other than covering any of the material or component used. In addition, a number of working or processing operations are specified which result in a change of tariff heading without conferring the status of "originating" products on the products undergoing such operations, or conferring this status only subject to certain conditions (List A in the EEC, and Schedule 2 in the UK), and a number of working or processing operations which do not result in a change of tariff heading, but which do confer the status of "originating" products on the products undergoing such operations (List B in the EEC, and Schedule 3 in the UK).

Under these rules, many of the processing operations such as freezing, dehydration, drying and other kinds of manufacturing from primary products, do not qualify products as "originating" even if they have a different tariff heading from the materials and components. This, therefore, means that countries which export processed and manufactured goods from imported primary products may find that many of their exports do not qualify for preferential treatment under the rules of origin adopted by the UK, the EEC and several other countries.

The List A and Schedule 2 also specify other changes that may be necessary to qualify as "originating" products such as manufacture of materials from certain tariff headings, or the maximum proportion, usually 50%, that imported materials can form of the value of the final product. The latter condition is particularly relevant for countries which are significant exporters of manufactured goods but do not possess raw materials or capital goods industry. A large number of such products will qualify for preferential treatment under the UK and EEC GSPs only if the imported materials and components amount to less than 50% or 40% of the value of the product.² The general effect of restrictive rules of origin will be to reduce international division of labour among neighbouring developing countries.

¹ For full details of the rules on origin, see the documents referred to earlier on the GSP in the UK and the EEC.

² Some of the items covered under this rule are: umbrellas, zinc, tin, aluminium and copper articles; hand and machine tools; knives and blades; refrigerators, sewing machines, electrical machinery, a wide range of electronic products, motor cycles, typewriters, dictating machines, optical, photographic and cinematographic goods.

In view of the complexity of regulations and lack of information on the local value added for different products it is not possible to say to what extent these rules will affect exports from Singapore. Under the Commonwealth Preference System, the non-originating proportion of the value of the goods could be as high as 75%. In this respect, the rules adopted by the EEC and the UK under their GSPs could deprive many of Singapore's exports of the advantages offered by their GSPs.

VI APPROACHES TO THE SOLUTION OF THE PROBLEMS ARISING FROM EEC ENLARGEMENT

Although formal negotiations within the framework of the Declaration of Intent are likely to take place later in the year, individual or groups of Asian Commonwealth countries have initiated exploratory discussions with the EEC. India has been attempting for some years to negotiate a comprehensive commercial treaty with the EEC, the main elements of which are reduction or elimination of trade barriers in the Community on products likely to be adversely affected by the elimination of the Commonwealth Preferences, collaboration in the establishment of new industries and assistance with the marketing of Indian exports in the enlarged Community. It is understood that Sri Lanka has presented an Aide-Memoire to the Community setting out its views on the solution to the various problems it is likely to encounter as a result of the enlargement of the EEC. Malaysia and Singapore have been coordinating their position with other members of the Association of South East Asian Nations (ASEAN) which also includes Thailand, Philippines and Indonesia. ASEAN has set up a special committee in Bangkok to coordinate the five members' position and has also established an ASEAN Brussels Committee comprising the five ambassadors accredited to the EEC. Exploratory talks have taken place between ASEAN members and the European Community.

There are several possible solutions of varying generality for dealing with the trading problems of the Asian Commonwealth countries identified in the preceding sections. These range all the way from major modifications in the general scheme of preferences of the enlarged Community to bilateral agreements on individual products. In this section we suggest a number of feasible approaches to a solution of these problems.

The most general approach is to aim at a really generous scheme of preferences to be offered collectively by the enlarged EEC. The discussions on the merging of the GSPs of the new and old members of the European Community could provide an opportunity for this. An ideal scheme would allow for duty-free and unlimited importation of all manufactures and semi-manufactures from developing countries and of agricultural and processed goods of export interest to them. In