The Effect of New Trading Blocs on the Commonwealth

In the mid-twentieth century the Commonwealth was the leading economic community in the world. Writing in 1956, Gunnar Myrdal compared the Commonwealth favourably to Western Europe as an economic and political grouping. He commented that Western Europe lacked the Commonwealth's 'sense of solidarity'. By 1970, however, the Commonwealth had lost its *raison d'etre* as an economic association. In this year Britain launched its third, and this time successful, application for membership of the European Economic Community (EEC).

Canada occupied an ambiguous position in the Commonwealth economic community. The Canadian economy was second only to the British in size and industrial sophistication, but Canada was not a member of the Sterling Area, the financial mechanism at the heart of Commonwealth economic cooperation between 1940 and 1958. Even before the Second World War, the Canadian economy was more closely integrated with the USA than with Britain. Naturally, this reliance on the USA inspired some Canadians to promote the Commonwealth nexus as a counterweight. But the purpose of this paper is not to discuss Canada's economic policy towards the Commonwealth, but rather to explain why the Commonwealth ceased to offer a viable alternative to other economic arrangements.

The British Economic Complex

American officials in the 1950s characterized the global web of financial, economic, political, and military relationships centred upon London as the 'British complex'. The Commonwealth economic community was a set of interlocking networks spanning the private and public sectors. A network is a form of organisation that is intermediate between, at one extreme, impersonal interchange among unrelated agents, and, at the other end extreme, a formal hierarchy controlled from the centre. Members of a network interact with each other more than they interact with outsiders. Networks are not inherently more or less efficient than other forms, but they can prove invaluable under particular circumstances. The notion that the Commonwealth was a network, or group of networks, is an old one. The British statesman, Stanley Baldwin, described the Commonwealth in 1924 as a 'network of contacts'. In 1940 Keith Hancock remarked that 'this network was intricate and intimate', although membership did not bar intercourse with other nations. In the public sector, networks of ministers, civil servants, and central bankers met regularly at Commonwealth economic conferences, and sat on committees and working parties such as the Sterling Area Statistical Committee. These networks discussed the overall direction of economic policy in the Commonwealth. But the Commonwealth was also permeated with networks of bankers, traders, shipping companies, and manufacturers, whose decisions may or may not have been consistent with the communiqués issued after Commonwealth economic conferences. These public and private networks were interdependent. Cain and Hopkins stress the close links between policy-makers and business leaders, especially in commerce and banking, at the core of the imperial network. It is not suggested that each component of these networks possessed equal influence. Britain's voice carried far more weight than New Zealand's, however the views of small countries could not be disregarded. Networks depend on give and take, and require a high level of mutual trust.

Private sector networks were largely responsible for creating Britain's commercial empire between the seventeenth and early twentieth centuries. It was only in the 1930s that economic cooperation between governments of empire countries developed along systematic lines, in response to the global crisis of 1929-33. Sterling left gold in 1931. India and the Dominions, except Canada due to its proximity to the USA, resolved to fix their currencies against sterling, instead of letting them float or fixing them against gold or the US dollar, and thereby formed the Sterling Bloc. The establishment of central banks in India

and the Dominions facilitated greater monetary cooperation. In 1932 Britain abandoned free trade and imposed tariffs or quotas on most imports from foreign countries, while continuing to grant duty-free status to empire produce. Empire countries, including Canada, reciprocated by raising tariffs on non-British manufactures. The Ottawa Agreements codified the system of Imperial Preference.

During the 1940s, the need for cooperation between Britain and other Commonwealth governments intensified. Notwithstanding the provision of aid by the USA and Canada, Britain and the sterling Commonwealth remained desperately short of US and Canadian dollars to pay for essential imports. By 1945, the Sterling Bloc had evolved into the more restrictive Sterling Area. Members of the Sterling Area imposed various restrictions, including exchange and import controls, on dollar expenditure, and deposited dollar earnings into a central pool in return for additional sterling balances. Sterling balances could be converted into dollars to pay for imports from North America. Each year some parts of the Sterling Area were in deficit, others in surplus, with the dollar area. Fewer dollars in total were needed under this system than under the alternative of separate reserves in each country. Pooling freed member countries from the need to earn dollars directly. Since the US market for agricultural produce was tightly protected, it would have been difficult for countries like Australia and New Zealand to earn enough dollars by their own efforts. Under pooling, however, they could draw dollars that had been earned by British manufacturers and tropical colonies. Not all members of the Sterling Area had the same rights. Britain controlled dollar expenditure by the colonies, and restricted the freedom of India, Pakistan, Ceylon, Burma, Iraq, and Egypt to convert sterling balances accumulated between 1939 and 1945. Australia and New Zealand faced no formal constraints on their dollar spending.

The economic goals of most governments in the early post-war period were reconstruction, stability, and full employment. After the traumas of the 1920s and 1930s, few outside North America had faith in unfettered market forces. The possibility that the world economy would fall back into depression could not be ignored. According to the economic thinking of the time, demand shocks were transmitted from country to country by fluctuations in exports and imports. A decline in exports relative to imports led to a leakage of spending and a reduction in economic activity. For example, if economic activity were to fall in the USA, Americans would buy fewer imports, and consequently in the Sterling Area aggregate demand would fall and unemployment rise. In theory, however, the Sterling Area apparatus made it possible to match any reduction in exports with an equal reduction in imports, leaving aggregate demand and employment unchanged.

Demands from the USA, supported by Canadian, for the abandonment of dollar discrimination did not prevail in the late 1940s. A brief flirtation, in 1947, with the free convertibility of sterling into dollars for current account transactions, ended in embarrassment when the dollar reserves collapsed. Similarly, early post-war attempts to negotiate the abolition of Imperial (or Commonwealth) Preference produced disappointing results for the Americans. Though the members of the Commonwealth Preference Area (CPA) surrendered the right to increase preference margins, in the GATT negotiations only Canada actually made deep cuts in preferences. Other Commonwealth countries held back because Washington declined to offer larger concessions. As the Cold War intensified, however, the Americans grew more tolerant of the Commonwealth economic community. The Commonwealth was America's only credible ally, and therefore had to be accommodated.

Self-interest was one element in the willingness of independent Commonwealth nations to cooperate with Britain in the management of the Sterling Area and the CPA. As British officials put it in 1956, 'Commonwealth countries … are accustomed to trade with us, as we are with them. That is why it is in their interest that their currencies are tied to sterling, and the fact that their currencies are tied to sterling increases the tendency for us to trade with each other.' Aside from the benefits of dollar pooling, Sterling Area countries enjoyed indirect access to dollar loans and aid obtained by Britain. It was to the advantage of sterling balance holders to protect the value of sterling, and thereby to avoid a capital loss.

Furthermore, tariff preferences were regarded as useful bargaining counters in negotiations with other countries, and therefore not to be sacrificed lightly. The collapse of the Ottawa Agreements would have brought into question the right of Commonwealth primary producers to enjoy unrestricted duty-free access to the British market, as well as Britain's disposition to permit Sterling Area governments to float loans in London. Commonwealth and Sterling Area countries would have been worse off in the short term if they had refused to cooperate. The Sterling Area and the CPA were useful networks because of the increased transaction costs of doing business with non-members as a result of the disruption of international markets, the dollar gap, and US agricultural protectionism. Britain and, to a lesser degree, Canada occupied pivotal positions within this complex, due to their wealth and their ability to intercede with the USA on behalf of other members. It was the British, in response to an Australian request, who persuaded the Americans to allow Marshall Aid funds to be applied to cover the dollar deficit of the Rest of the Sterling Area (RSA).

Relationships within the Sterling Area and the CPA were strengthened by trust. Casson suggests that cooperation among nations is harder to sustain than cooperation among firms, since political leaders have short electoral time horizons, and little incentive to invest in a good reputation abroad. In the Commonwealth, however, the temptation to act opportunistically was balanced by the unifying bonds of a shared language, history, and culture. Judd Polk, an American observer, contended that solidarity, reinforced by habit and informality, was an important, if intangible, characteristic of the Sterling Area as an international organisation. Solidarity was not confined to politicians and officials of British birth, such as the New Zealand statesmen Peter Fraser and Walter Nash, or even British ancestry. According to Mansergh, the leaders of India, Pakistan, and Ceylon were easily incorporated into the highest councils of the Commonwealth in the late 1940s. He added that the Commonwealth did not cease to be a 'fraternal association', in Churchill's phrase, until after Suez. Trust was particularly important for the smooth working of the Sterling Area. Britain relied on independent members of this group to regulate imports so as to ensure that the central pool did not run out of dollars. During successive balance of payments crises, the RSA responded to calls for restraint, and the Sterling Area survived. A combination of 'Sentiment', 'Tradition', and 'Interest' counteracted the temptation for Commonwealth countries to behave opportunistically. The Sterling Area and the CPA were as *ad hoc* defensive networks against the economic impact of depression, war, dollar shortage, and uncertainty. They provided members with a degree of insulation from external shocks, although it was not imagined that either would be self-sufficient.

Erosion Of The Commonwealth Economic Complex

The medley of networks that comprised the Commonwealth as an economic community decayed during the 1950s and the 1960s. At the micro-economic level, Britain lost its leadership in world shipping, and its competitive advantage in many branches of manufacturing. Customers in the Commonwealth were to a limited extent prepared to pay more for a British than for an equivalent foreign product, in view of the low transaction costs of going through familiar British companies. As British firms continued to lose competitiveness, however, a point came at which customers did switch to foreign products and commercial networks. Disengagement is also discernible at the inter-governmental level. The growth in political disunity in the Commonwealth was not conducive to economic cooperation. Suez destroyed Britain's credibility as a world power. The Macmillan government scuttled the African remnants of empire, after they had been devalued in the imperial economic audit of 1957, thus completing the transformation of the Commonwealth 'from a cozy club into [just] another international association'. Nevertheless, the British endeavoured to hand power over to 'responsible' successors in order to protect residual business and political interests in these countries. This strategy was most successful in Britain's most profitable colony, Malaya, which became independent in 1957. Even in Malaya, though, goodwill towards Britain diminished as new politicians and civil servants rose to prominence. Apartheid, Rhodesia, Biafra, and Kashmir divided the Commonwealth during the 1960s, and crowded out discussion of

economic cooperation. Harold Wilson, who came to power in 1964, wished to revitalize the Commonwealth as an economic association, by linking the development plans of Asian and African members to the expansion of Britain's capital goods industries. Agreement on the basis of Wilson's project was impossible under the conditions prevailing in the mid-1960s. Australia was Britain's most important export outlet during the 1950s. Fieldhouse describes sterling markets as Britain's 'lifeline' between the 1930s and early 1950s. By 1960, however, the share of the Commonwealth in British exports was falling, while the shares of Western Europe and the USA were rising. The relative decline of Commonwealth trade preceded Britain's membership of the EEC. Western Europe's rising share of British trade, between 1955 and 1970, merely restored the state of affairs pertaining before the First World War. But Western Europe's share of British exports continued to grow during the 1970s and 1980s. The EEC required Britain, which became a member in 1973, to discriminate against non-members.

Wartime discussions between the leading Allies – the USA, Britain, and Canada – focussed on how stability could be restored to the world economy. It was in principle resolved to establish multilateral organisations to manage the post-war international economy. The purpose of the first of these bodies, the International Monetary Fund (IMF) was to reduce currency instability, eliminate restrictions on current account transactions, and prevent international financial crises. IMF members were obliged to fix their exchange rates against the US dollar, and to progress towards non-discriminatory and unrestricted payments. Significant changes in exchange rates required the approval of the IMF. Members could borrow from the IMF when in difficulty, but the more they borrowed the tighter the conditions imposed, and the greater the IMF's interference in their economic policies. One of the advantages of IMF membership was eligibility to join the International Bank for Reconstruction and Development (IBRD or World Bank), an increasingly important source of capital for development projects. The Bretton Woods institutions (the IMF and the IBRD) offered a rival structure, and source of legitimacy, to the Sterling Area. Attitudes in the Sterling Area towards the IMF were ambivalent. The IMF was highly critical of the Sterling Area's regime of dollar discrimination in the early 1950s.

Britain and the RSA endorsed the *principles* of non-discrimination and current account convertibility, and accepted the need for international coordination. After 1947, however, the Sterling Area declined to be pushed into the premature resumption of convertibility. The phasing out of dollar discrimination, starting in the mid-1950s, and the resumption of convertibility in 1958, highlighted the self-liquidating aspects of the Sterling Area. Schenk concludes that the Sterling Area was a temporary expedient.2The Sterling Area became increasingly irrelevant after 1958, and members gradually reduced their holdings of sterling. As regards commercial policy, in 1945 the Americans proposed an International Trade Organisation (ITO). Though the ITO did not win the endorsement of the US Congress, its place was taken by the General Agreement on Tariffs and Trade (GATT).

Prior to the formal discussion of these schemes, the British, under intense US pressure, had conceded the principle of no new preferences. The sterling Dominions resented, but later accepted, this concession, which precluded the extension of the Ottawa system while Britain and other Commonwealth countries were members of GATT. The Commonwealth was unable negotiate as a bloc in GATT. Canada enthusiastically supported GATT, but Australia and New Zealand were suspicious of this institution. At several points, Britain and Australia attempted to modify the no new preference (NNP) rule. However, foreign members of GATT vetoed any retreat from the NNP rule, while even the Commonwealth was divided over this issue. Asian countries were lukewarm about Commonwealth Preference, which they regarded as a remnant of colonialism. Peter Thorneycroft, the President of the Board of Trade, advised the British Cabinet, in 1954, to refrain from insisting on reform of the NNP rule, as this would cause a rift between Britain, Australia, and New Zealand in one camp, and Canada, India, and Pakistan in the other camp.

The exchange of British manufactures for imperial primary produce was at the heart of the imperial economic system. While several parts of the empire, including Canada, Australia, and, after 1917, India, placed tariffs on imports from Britain, it was not until after 1945 that import substitution industrialization (ISI) became a cornerstone of economic policy in the underdeveloped and semi-developed world. The purposes of ISI were to foster economic development, strengthen the capacity for national defence, and reduce dependency on more advanced nations.

During the late 1930s and the Second World War, Britain encouraged the establishment of munitions-related industries in the empire. It was recognized, for example, that Australia could not be defended in the absence of a large increase in population and military capacity. British and Australian ministers agreed in 1938 that a substantial rise in the Australian population was in the 'interests' of the 'Empire as a whole', and that this would entail further industrialization. Hancock pointed out that, in view of the Japanese and German threats, economic nationalism in the Dominions could be consistent with the highest imperial priorities. Industrial decentralization within the British Empire was a rational response to Britain's inability to guarantee maritime communications. British ministers advocated the development of a modern engineering industry in India, so that this country could make a mechanized contribution to imperial defence. Nevertheless, ISI cut against the grain of British industrial interests, which were to supply Commonwealth countries with a full range of imported manufactures.

Employers on the UK Engineering Advisory Council complained, in 1952, that Commonwealth countries were 'making strong efforts to develop their secondary industries, even when these are uneconomic.' Not only did ISI undermine exports, but it also drew resources out of primary production, leading to higher food and raw material costs in Britain. ISI was particularly damaging to the interests of British manufacturers of consumer products. Although import substitution policies created opportunities for exporters of capital goods, firms in this branch of engineering experienced declining competitive advantage relative to European, US, and Japanese producers. India was the most systematic exponent of ISI in the Commonwealth. Instead of investing in light industries, India was determined to modernize in depth, starting with heavy industries. This semi-autarchic strategy did not bode well for trade with Britain. In fact India's partial withdrawal from the international economy seriously reduced the scope for the Commonwealth to develop as an economic community. The persistent use of tariffs and import controls against British goods was a source of tension in the Commonwealth during the 1950s and 1960s. Although New Zealand lacked a coherent ISI programme, it restricted imports from all sources in order to safeguard the balance of payments, which was chronically weak due to zealous full employment policies.

Small-scale manufacturing firms expanded in this insulated environment, and import controls were tweaked in their favour whenever they were under threat. Britain often remonstrated with New Zealand. For instance, in 1966 the British submitted a list of exports, including televisions, gin, coffin furniture, and vices, with respect to which they alleged unfair treatment by New Zealand. Britain also faced the possibility of growing competition from Commonwealth manufactures in the UK domestic market. In 1956, the British Cabinet noted that problems might arise from the 'industrialisation of the Colonies, based on very low costs', as the 'United Kingdom would be unable to absorb Colonial manufactures in large quantities' without harming sunset industries such as cotton. Most colonial and Commonwealth manufactures were imported duty-free under the Ottawa Agreements. The government finally intervened in 1959 to impose a rather loose quota scheme on cotton textile imports from India, Pakistan and Hong Kong. In the 1960s, Britain was a party to the Short-Term and Long-Term Arrangements in GATT, which permitted Western countries to regulate textile imports from the Third World. By participating in these schemes, Britain was retreating from the principle of Commonwealth free entry under the auspices of a multilateral organisation.

Many British firms responded to ISI by opening subsidiaries in the countries concerned. Indeed, this tendency was visible before 1939. The geographical distribution of British FDI was skewed towards the Commonwealth until the surge of investment in Europe in the 1960s and 1970s. Large firms, such as ICI, Unilever, and BMC, were in a better position than were smaller firms to make the transition from exporting to FDI. Some companies were coerced into establishing joint ventures in Commonwealth countries on pain of the grant of exclusive rights to foreign rivals. Leyland Motors' investment in India in the 1950s was made against the backdrop of such a threat. British plants in the Commonwealth suffered from the same competitive malaise as manufacturers in the UK. Several large British companies opened works in Malaysia, in the 1960s, to make consumer goods for the local market. Although initially successful, these businesses wilted when Japanese companies also set up plants in Malaysia. Import substitution undermined the British economic complex. Dissatisfaction with the erection of barriers against British exports inclined policy-makers in London to pay greater attention to the potential of alternative markets.

Agricultural development, the British counterpart to ISI, caused as much anxiety to Dominion farmers as import substitution did to manufacturers in Manchester and Birmingham. During the 1930s, Britain introduced food tariffs on many agricultural imports, including foreign dairy produce and beef, and quotas on foreign beef. Imports from the empire, however, remained free of duty. At the same time, certain products, notably wheat, continued to be imported duty-free and in unlimited quantities from all sources. War and its aftermath disrupted the British food economy, and the government entered into long-term contracts with Commonwealth countries in order to ensure supplies. Britain encouraged the Dominions, with mixed results, to expand their primary producing capacity. For several reasons, including fear of renewed blockade, concern about the import bill, and farmers' insistence on higher living standards, the 1945-51 Labour government introduced a lavish system of agricultural subsidies called deficiency payments. Britain's output of temperate foodstuffs grew rapidly under these benign conditions.

As the world food shortage abated, the Churchill government terminated the long-term food contracts in 1953-54, and loosened controls over food imports from the dollar area. Britain refused to join the revised International Wheat Agreement (IWA) in 1953, arguing that its price range was too high. The British welcomed the dumping of food surpluses by foreign countries, as this helped to contain the cost of living. Moreover, Commonwealth food preferences, which were specific rather than *ad valorem*, had been eroded by inflation since 1939. Commonwealth suppliers were squeezed between the deficiency payments scheme and foreign competition. Farmers in the Dominions considered that they had been betrayed. Geoffrey Scoones, the British High Commissioner, reported on opinion in New Zealand: Her Majesty's Government's frequent exhortations to New Zealand since the war to increase her exports of meat … are very much in New Zealand minds… it is felt here that such exhortations cannot now be unsaid, and that they, no less than the Ottawa Agreement, place an obligation on Her Majesty's Government to assure New Zealand producers a remunerative return in the United Kingdom market.

As the cost of deficiency payments mounted, Whitehall began to search for an alternative means of assisting British farmers. In 1962, Nicholas Soames, the Minister of Agriculture, suggested that, whatever the outcome of negotiations for EEC membership, Britain should introduce variable import levies or quantitative restrictions on cereal and meat imports from all sources. He noted that Britain had the right to terminate at six months notice the agreements under which Commonwealth food was imported in unrestricted quantities. Cabinet decided in 1963 to work towards a regime of minimum import prices for cereals, and 'voluntary' restrictions on beef and lamb imports. In the event, it proved impossible to agree with suppliers on the control of meat imports, except bacon, but an understanding was reached with Australia, Canada and other exporters on a regime of minimum import prices and market sharing for wheat.

Although Commonwealth producers encountered far fewer restrictions in Britain than elsewhere, the thrust of British policy was hostile towards traditional suppliers. Regardless of policy changes, however, Britain would not have been able to absorb the Commonwealth's rising food surpluses at remunerative prices, in view of the slow growth of the population, and the low income elasticity of demand for food.

London's position as the world's principal capital market was undermined by the two world wars. Britain needed Canadian as well as American Lend-Lease aid during the Second World War, and in 1946 Canada granted Britain a generous loan of C$1.25 billion. India, Egypt, Australia, and other parts of the Sterling Area also provided Britain with large wartime credits, which accounted for the rapid growth in sterling balances. However, Britain intended to resume its role as a capital exporter once the international economic situation returned to normality. Due to the parlous state of the balance of payments, overseas governments, public agencies, and companies required official sanction to issue debt on the London market after the war. Preference was given to borrowers from sterling countries, but even they were rationed. Unable to raise sufficient capital in Britain to support an ambitious development programme, Australia turned to the World Bank, in 1950, for a loan of US$100 million.

World Bank borrowing relieved Australia's dollar shortage, and enabled it to buy more American equipment. Australia returned to the World Bank on a number of occasions. At the 1952 Commonwealth Economic Conference, Britain, under pressure from the rest of the Commonwealth, agreed to make a 'special effort' to provide more capital for development projects. However, it was acknowledged that the Sterling Area also needed to attract much more foreign, and especially American, capital. The Colombo Plan was a Commonwealth initiative, proposed in 1950, to provide economic assistance to Asian developing countries. As the British were short of capital, they persuaded the Americans to make a financial contribution, even though thus compromised the Colombo Plan's branding as Commonwealth scheme. While Canada became an important capital exporter in the 1950s and 1960s, the bulk of its investments were in the USA not the Sterling Area.

By 1956-57, British government attitudes towards investment in the Commonwealth were hardening. Sir Frank Lee, the Permanent Secretary of the Board of Trade, was in no doubt about the need for a change of course. 'We are clearly over investing abroad (particularly in the Commonwealth) and under-investing at home… But what troubles me particularly … is the ingrained belief in so many Commonwealth countries that the U.K. must finance somehow or another the great part of what are thought to be their essential investment needs (usually on the basis of a very rapid rate of economic growth) ... My belief is therefore that we shall be forced to a drastic reconsideration of our overseas investment policy, particularly in the Commonwealth ... I fully realise that a substantial contraction … of our investment in the Commonwealth would be likely to involve very serious political and other consequences – e.g. the future of the sterling area as we know it would be in question ... [but I am] very sceptical indeed about the real advantage to us of maintaining the sterling area…' Lee contended that too much British capital had been wasted on prestigious, but uncommercial, development schemes, with the result that British industry had been starved of capital for modernization. British industry's lacklustre performance, especially against European and Japanese competition, was a matter of growing concern. Over the longterm,

Britain's ability to provide the Commonwealth with fresh capital depended on British industry's international competitiveness. Without a current account surplus, Britain could not be a net exporter of capital. These issues were given careful consideration in 1956-57. Although the British resolved not to impose additional restrictions on lending to the RSA, they used higher interest rates to deter overseas borrowing. Britain urged Commonwealth governments to borrow in New York, and to join the IMF and World Bank, if, like New Zealand, they were not yet members. In 1966, as sterling came under renewed pressure, British investors were asked to reduce capital outflows to the Sterling Area. The practical impact of these 'voluntary' controls is uncertain. The point is that they signalled a tougher British stance.

Britain remained the principal source of capital inflows (direct plus portfolio) into Commonwealth countries, with the notable exception of Canada, during the 1950s and 1960s. Even so, the demand for capital imports exceeded Britain's willingness to supply capital. The USA, the World Bank, Japan, and continental Europe supplemented British capital flows to a greater or lesser extent. As regards FDI, the growing involvement of foreign, and especially American, subsidiaries reflected their ability to offer superior processes, products, or brands compared with British firms. In Australia, General Motors-Holden, Ford, International Harvester, Chrysler, Goodyear, Kodak, Nestlé, Philips, and Volkswagen were ranked among the top 100 companies in 1964. As the pattern of capital flows changed, Commonwealth countries reduced their dependence on British components, technology, and management services. Hence the Commonwealth economic network experienced further erosion.

Economic Alliances Excluding Britain

The weakening of the Commonwealth as an economic community owed much to the competing attraction of alternative centres of power, including the USA and Japan, and other regional networks. By 1939 Canada was in some respects already an extension of the US economy. Canada's manufacturing sector was quite closely integrated with its US counterpart. Large US firms, such as General Motors and Ford, operated plants in Ontario. The Canadian economy derived substantial benefits from proximity to the US market, and ease of access to US capital, technology, and management expertise. Intra-industry trade increased as Canadian industry became more sophisticated. Although some Canadians resented American domination, Canada achieved a much higher level of industrial development than either Australia or New Zealand, which were both isolated, and more reliant on British investment, did. The pull of the USA was much weaker in Australasia. Several Australasian products, such as beef, found a buoyant market in the USA during the 1950s and 1960s, but protection was a serious obstacle to the export of dairy produce, and even of wool, to the USA. American firms and consumers had no interest in inferior Australasian manufactures. The resurgence of Japan, under American sponsorship, threatened Britain's economic position in the Far East. Soon after the war, the Americans resolved that Japan should be developed as a bulwark against communism. However, they also determined that the revival of the Japanese economy must not be allowed to undermine US industrial jobs. Mainland China had been Japan's principal market before the Second World War, but, after the communist takeover in 1949, the Americans wished to isolate China, and therefore required alternative markets for Japan. The most convenient markets were in non-communist Asia, including the Sterling Area. Washington argued that the exchange of Japanese manufactures for Asian and Australasian primary produce would be mutually beneficial. A strong Japanese market would provide Australia and New Zealand with a serviceable alternative to the protected US market.

American pressure for Japan to be admitted into GATT presented Britain, Australia, and New Zealand with a dilemma. Washington's demands could not be ignored, and there was no denying that Japan was a potentially lucrative outlet for Sterling Area primary produce. But Japanese consumer goods posed a serious threat to Australasian industries and British exporters. When Japan joined GATT in 1955, certain countries, including Britain, Australia, New Zealand, and India, refused to grant it full MFN status for several years. Australia concluded a bilateral trade agreement with Japan in 1957, and New Zealand followed suit in 1958. These agreements ended quantitative discrimination against Japanese trade, and reduced tariffs on Japanese products from the general level to the MFN level, thereby cutting actual British preference margins. In return, Japan confirmed the duty-free status of wool, and agreed to import certain quantities of selected primary produce. Australia and New Zealand came to terms with Tokyo in order to secure a bridgehead in the Japanese market. They were spurred into action by the slow growth of the British market, the lamentable state of British agricultural policy, the 1954 trade agreement between Canada and Japan, and persistent overtures from Tokyo. British exporters bore the brunt of these agreements. Relations between Australia and Japan strengthened in the 1960s, stimulated by vast mineral discoveries in Western Australia. Trade between New Zealand and Japan, which started from a lower

level, grew even faster than trade between Australia and Japan. In the 1960s, Japan floated a scheme for a free trade area embracing Japan, Australia, New Zealand, the USA, and Canada. Nothing came of this proposal, which may be regarded as a precursor of APEC, but it provided further evidence that Australia and New Zealand might be drawn into an Asia Pacific economic network. In 1960, Malaya, Thailand, and the Philippines started to discuss the formation of a regional economic bloc as a counterweight to the EEC. India also showed interest in an Asian-African association. Britain's turn towards Europe gave added impetus to the design, if not the implementation, of regional economic arrangements in Asia. The South East Asian plans of the 1960s foreshadowed the later development of ASEAN. The New Zealand Australia Free Trade Agreement of 1965 was the main practical development at the sub-regional level. New Zealand began to transfer its economic allegiance from Britain to Australia. NAFTA (not to be confused with the North American free trade grouping) was the first step towards the reintegration of the Australian and New Zealand economies, which had drifted apart after New Zealand's rejection of membership of the Australian Federation in 1901. A Closer Economic Relations (CER) agreement followed in 1983.

The newly independent Commonwealth African nations also sought to construct new economic links. Nigeria signed a preferential trade agreement with the EEC in 1966 that entailed discrimination against British goods. Commonwealth governments in East Africa reached a similar agreement with the EEC in 1968. Developing African, Caribbean and Pacific countries, including Britain's former colonies, entered into a wider preferential agreement, the Lome Convention, with the EEC in 1975. Britain could not prevent the unravelling of its economic complex east of Suez, since it could not offer new trading opportunities to match those available in the Pacific Rim and Asia. In the long run, Britain was too small to absorb the rising food, raw material, and manufacturing surpluses of the Commonwealth. New outlets were needed for Commonwealth produce, and these could not be obtained without the formation of new inter-governmental and business networks. It was inevitable that these networks should gradually displace older networks centred on London.

Ottawa Or Europe? Britain's Choice

The decision of six European countries in 1955 to form a Common Market (the EEC) coincided with a serious deterioration in Britain's relationship with Australia. Britain started, slowly at first, to refocus its external economic strategy towards the rapidly growing European market. In 1955, the British still considered the Commonwealth to be a more valuable economic asset than Western Europe. But they feared that if the EEC were to go ahead, German industry would gain an even more dominant position in Europe, while British industry would face discrimination and marginalization. Ideally, from the British perspective, Franco-German squabbling would kill the Common Market scheme. However, the Six were determined to proceed with or without Britain's blessing, since they enjoyed strong support in Washington. The demand of Australia, in 1956, for large reductions in contractual British preferential margins, in order to facilitate trade negotiations with other countries, was viewed askance in London. As far as the British were concerned, the Australian proposals would wreck the Ottawa system, of which Australasia was the core. Britain made a net loss from the Ottawa system as a whole, but a significant net gain from its preferential tariff arrangements with Australia and New Zealand. The campaigns mounted by Australia, in 1956, and New Zealand, in 1958, for reductions in contractual British preferences led to the revision of their respective Ottawa Agreements. In the event, however, foreign countries were unwilling to open their markets to Australian and New Zealand food exports for the sake of lower British preference margins, and *actual* margins did not fall by much in the late 1950s and 1960s. Economic theory suggests that the welfare implications of participation in a regional trading arrangement, such as the Commonwealth Preference Area or the EEC, are ambiguous. It appears, though, that the Ottawa system exerted a significant influence over the direction of trade. The intensity of trade was greater between Britain and the Commonwealth than between Britain and comparable non- Commonwealth countries. What really mattered in the mid-1950s was that British perceptions of the relative value of the

Commonwealth and Europe as economic communities started to change. Harold Macmillan outlined the position in Cabinet in July 1956: Australia's changed attitude to the preference system reflected the fact that the United Kingdom was no longer able to fulfill her traditional role of providing the capital needed for the industrial [sic] development of the Commonwealth. … The preferences were still of great value to us and it was important that we should retain what preferences we could. It would now be necessary, however, to re-examine, in the light of the Australian attitude, the relative importance and future prospects of our trade with Australia and the Commonwealth, and with Europe and other overseas markets. Britain began to draw closer to Europe. At first the British promised that they would do nothing to jeopardise Commonwealth food preferences in negotiations with the Europeans. Late in 1956, they floated a scheme for an industrial free trade area in Europe, which after a lengthy delay was rejected by EEC countries. Frustrated by the collapse of this initiative, the British scrambled to establish the smaller European Free Trade Area, another largely industrial bloc, in partnership with the Scandinavian countries, Portugal, Austria, and Switzerland. In 1961-63, Macmillan launched an application for British membership of the EEC. He regarded it as imperative that British industry should have access to EEC markets on the same terms as the Germans. Large manufacturers were among the most enthusiastic supporters of the European connection. Growth in Europe continued to outstrip growth in the Commonwealth, giving further impetus to the pro-EEC stance of the British establishment.

One of the stumbling blocks to membership of the EEC was the privileged status of Commonwealth agriculture. The Six insisted that Britain must scrap Commonwealth food preferences, and adopt the projected Common Agricultural Policy, which incorporated draconian restrictions on imports from non-EEC countries. Some safeguards might have been available for New Zealand dairy farmers, and for some tropical producers, but otherwise the EEC had nothing to offer the Commonwealth beyond a vague undertaking to promote world commodity agreements. Essentially, Commonwealth farmers and manufacturers would forfeit their British markets to European suppliers. Diefenbaker was the most virulent critic of Macmillan's policy, though Canada had less to lose than many Commonwealth countries. New Zealand still consigned over 50 per cent of its exports to Britain, and feared that even partial exclusion from this market would lead to ruination. Apart from Canada, however, the mood in the Commonwealth in 1961-63 was one of sullen resentment rather than outright opposition to Britain. New Zealand could not afford to alienate the British. The Australians effectively washed their hands of the affair, taking comfort from the gathering pace of mineral exports to Japan. De Gaulle's veto of Britain gave Commonwealth food producers, especially in New Zealand, a reprieve, although there was no suggestion that Britain now planned to withdraw into a strengthened Ottawa bloc. It seemed only a matter of time before Britain submitted another application to join the EEC. Wilson's flirtation with the Commonwealth in 1964-65 was short-lived. In 1965, officials warned that Britain faced political and economic isolation outside the EEC. Britain needed to develop high technology industries in cooperation with other advanced countries, since it could not compete alone with the USA. The Commonwealth had little to offer.

A satisfactory alternative [to EEC membership] had to be considered not only in terms of the … size of market for a major industrial complex but also in terms of the size of research and development potential for future expansion in a highly technological world. The Commonwealth would not provide a satisfactory alternative; the new Commonwealth was in need of technical assistance and they were in no position to contribute to research and development resources. On the other hand, among the old Commonwealth countries Canada was linked to the United States in research and development, and Australia and New Zealand pursued their own policies. Wilson's approach to the EEC in 1967-68 was rebuffed, but thereafter negotiation was virtually continuous. De Gaulle's departure facilitated success for Edward Heath's government in 1970-71. Britain joined the EEC in 1973, having obtained minimal concessions for Commonwealth producers other than New Zealand dairy farmers and Third World sugar growers. The Commonwealth Preference Area ceased to function in 1977. It is debatable whether Britain after 1973 was better off as a member of the EEC than it could have been under the various alternative

arrangements. This paper, however, is not concerned with the merits of British policy. During the 1960s the British convinced themselves that it was preferable to join the EEC than to lead a much looser Commonwealth economic community. Once the British had made their decision, the rest of the Commonwealth could do nothing to change their minds.

The Commonwealth economic community emerged as an intergovernmental network in the 1930s in the wake of the collapse of the Gold Standard and multilateral trade. During the 1940s, this community became more inward looking, as the cost of transacting with outsiders was increased by the war, the dollar shortage, and uncertainty.

The 1950s and 1960s, however, saw the reversal of this process of growing integration. When normality was restored to the international economy, transaction costs fell, and the need to discriminate against the dollar area waned. Commonwealth countries were drawn towards new centres of attraction. The Commonwealth had never been self-sufficient, and Britain could not absorb the export surpluses of Commonwealth Asia, the African colonies, and the Dominions. Import substitution policies in Britain as regards agriculture, and in the rest of the Commonwealth as regards manufacturing, undercut traditional patterns of economic interchange within the Commonwealth.

Britain was neither willing nor able to supply Commonwealth countries with sufficient capital to finance their ambitious development programmes. Commonwealth states in the Asia Pacific worked to improve their relations with the USA and Japan, ultimately to Britain's loss. Australia's demand for more leeway to reduce British preference margins helped to spark the British government's interest in European economic integration, although this was bound to happen sooner or later given Europe's proximity. Britain started to transfer its allegiance from an imperial economic grouping to a regional one. In due course, other Commonwealth countries, including Canada (NAFTA and APEC), Australia (CER and APEC), New Zealand (CER and APEC), Malaysia (ASEAN and APEC) and Singapore (ASEAN and APEC) also entered regional groupings. Commonwealth Africa and the Caribbean became linked to the EEC through the Lome Convention. The Major economic blocs around the world today are the **European Union (EU), European Free Trade Association (EFTA), North American Free Trade Agreement (NAFTA), Caribbean Community (CARICOM), Mercado Común del Sur [Southern Common Market] (MERCOSUR), Arab-Maghreb Union (AMU), Economic Community of West African States (ECOWAS), East African Community (EAC), South African Customs Union (SACU), South Asian Free Trade Area (SAFTA), Association of South-East Asian Nations (ASEAN) and the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA).**

Even though the trend has been towards the creation of regional continental trade blocs, the **Cairns Group** is a global trade bloc dealing specifically with agriculture. It ncludes leading Commonwealth countries. It is an interest group of 18 agricultural exporting countries, composed of Argentina, Australia , Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, the Philippines, South Africa, Thailand, and Uruguay. The Group takes its name from the Australian city of Cairns, where its inaugural meeting took place in 1986. The Australian Government led the formation of the group, though some of the South Asian countries had been working together on agricultural trade through ASEAN. The move to form the group was largely a response to the spiralling trade subsidies of the European Union's Common Agricultural Policy and the USA's Export Enhancement Program. Particularly, the objection came to the apparent double standards between the GATT forcing countries to liberalise their economies, whilst the USA were granted a waiver for agricultural protection in the 1950's. The Cairns Group's objective is to bring about liberalization of global trade in agricultural produce. In particular, its members aim to abolish export subsidies and trade-distorting domestic support measures for agricultural products and seek to improve market access for exported agricultural goods. The coalition attempts to present a common front in multilateral The Cairns Group successfully forced agriculture onto the agenda of the Uruguay Round. This eventually led to the Agreement on Agriculture.

Arctic Ocean
North America
Europe
Asia
Pacific Ocean
Pacific Ocean
Atlantic Ocean
Africa
Oceania
South America
Oceania
Indian Ocean
Antarctica
Trade Blocs Affecting Commonwealth
European Union (EU)
NAFTA
CARICOM (Caribbean Common Market)
SAFTA
ANZCERTA

Arctic Ocean
CANADA
Europe
North America
Asia
Pacific Ocean
Pacific Ocean
PAKISTAN
Atlantic Ocean
GUATEMALA
BURMA
NICARAGUA
PHILIPPINES
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Africa
COLOMBIA
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