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Intereconomics

*Suggested Citation:* Fleckenstein, Kurt (1966) : Hamburg's position between EEC, EFTA and COMECON, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 01, Iss. 10, pp. 24-27,  
<https://doi.org/10.1007/BF02922857>

This Version is available at:

<https://hdl.handle.net/10419/137650>

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# Hamburg's Position Between EEC, EFTA and COMECON

By Kurt Fleckenstein, Hamburg

**B**efore the war the German economic area owing to its natural location was the heart of Europe and under regional aspects connected the adjacent countries to one economic entity. In this economic area the Port of Hamburg was the "Gate to the World" not only for Germany but for the whole of Central Europe and the Baltic region as well. Due to the post-war political division of Europe into a Western and an Eastern sphere of influence Hamburg lost its central position in transports and has now a peripheral location. With that the economic capacities resulting from the old regional structure had been deprived of their natural basis. The rehabilitation under changed conditions and the consideration of overall European objectives has confronted Hamburg's economy and policy with special tasks.

## Structure and Position of Hamburg's Economy

Today, with its 1,400 industrial enterprises (excluding constructing industries and public utility undertakings) and its annual turnover of DM 15,500 million (1965) Hamburg is the Federal Republic's biggest industrial city apart from Berlin. Among its industrial enterprises small- and medium-sized firms are dominating. Also the other domestic branches have reached dimensions as are not to be found in any other German city. This does not mean, however, that in future foreign trade and the port as typical features of Hamburg will no longer be decisive for the city's economic structure. Many domestic activities are not conceivable without this basis. Thus e.g. approximately 50 % of Hamburg's total industrial turnover fall to the share of the so-called seaport industries: mineral oil processing, non-ferrous metal industry, caoutchouc and asbestos industry, sectors of the food processing industry (including luxury food, beverages and tobacco), and shipbuilding. These economic branches by processing imported foreign raw materials, or—as for example the shipyards—in some other way, are mostly connected with the harbour.

However, apart from the typical seaport industries also many other trades profit from the vicinity of Hamburg's port or from foreign contacts at their disposal in the city. Economic links maintained between Hamburg and all parts of the world, the "good will" Hamburg enjoys all over the world, the Hamburg merchants' experience and their preparedness to take risks offer the domestic economy services not to be underestimated.

The closer international linking of economic ties between the Hanseatic City and its neighbourhood is a consequence of increasing industrialisation. It was for this reason that around the turn of the century the national transactions with the hinterland became more important than international transit particularly with Northern and Central Europe. Therefore even today Hamburg is Germany's "Gate to the World". Only 40 % of the total volume of goods dispatched from Hamburg by inland transport undertakings is addressed to the neighbouring countries Schleswig-Holstein, Lower Saxony and Bremen. The major part of goods dispatched to the German hinterland is sent to more distant places. The same applies to goods arriving at Hamburg among which industrial products are dominating.

A regional co-ordination of interests has become necessary due to the fact that the economic area of Hamburg is reaching far beyond the city's administrative borders. This applies above all if Hamburg's function from the internal economic point of view is gaining comparatively higher importance than its foreign trade relations which are negatively influenced by structural changes in world trade. This is already touching on possible consequences resulting for a seaport's position from changes in international trade. History is showing that Hamburg's position in world trade was always closely linked up with the changes in markets, flows of trade, ranges of goods and industries.

Now as ever Hamburg with its turnover of DM 21,400 million (1965)—of which DM 15,800 million are imports and DM 5,600 million exports—is the Federal Republic's biggest foreign trade center. Last year 22 % of German imports and almost 8 % of the country's exports have been effected by Hamburg's foreign trade firms.

Now as before the United States with a share of 14 % is ranking first among the ten countries most important to Hamburg's foreign trade. It is followed up by the Netherlands, Libya, France, Britain, Italy, Saudi Arabia, Denmark, Iran, and—for the first time on place 10—Japan. Owing to the stagnating mineral oil imports the positions of Saudi Arabia and Iran deteriorated. In 1964 the two countries had still held the places 6 and 7.

Heading the list of the ten most important purchasing countries are at present the Netherlands followed by the United States, Denmark, Switzerland, France, Britain, Sweden, Italy, Austria, and Norway. Shifts in the

ranking as compared with 1964 were caused by France which improved its position moving from place 9 to place 5 and Sweden falling from place 5 to place 7. Austria and Norway supplanted Japan and Belgium/Luxemburg which in 1964 had occupied the places 8 and 10.

#### Structural Changes through European Bloc Building

Already this development is showing that in world trade old established positions and apparently constant inter-relationships are jeopardised time and again. Above all since the end of World War II also Hamburg's foreign trade had to adapt itself to structural changes in inter-regional and international economic relations. These non-recurring or continuous and in part overlapping changes in the patterns of data—apart from the division of Germany—are mainly resulting from the European integration into regional economic unions (EEC, EFTA, and COMECON). Also important are the efforts of many overseas countries which through increased industrialisation aim at abolishing their one-sided dependence on the production of agricultural goods and raw materials.

It is the aim of the West European integration to strengthen Europe's position as one of the three industrial fields of gravitation within a concentric world economy. This integration is to be judged by its different effects on a certain economic area which are opposing each other as they might open up or shut off this area. In their extent these effects, occurring not only with economic unions but also with customs unions, are dependent on numerous factors. Important above all are customs tariffs, quotas and non-tariff trade barriers as well as the size of the integrated area.

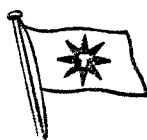
The growth effects in the meaning of an increase in the gross national product, of growing trade and production have had quick results in the EEC as well as in EFTA since the first tariff reductions. Thus from 1958 to 1964 the gross national product of the EEC in terms of real value has grown by about 39 % vis-à-vis an increase of 33 % in the United States and 23 % in the United Kingdom (as compared with 1963).

Also the exchange of goods within the community has strongly increased in the EEC as well as in EFTA. In the EEC the interior trade rose by 166 % between 1958

and 1964, and the trade among the EEC members has grown more quickly than the exchange of goods with non-member countries. Between 1958 and 1964 exports of the EEC to outside countries increased by approximately 52 %, its imports rose by 66 %. Within EFTA, too, the goods trade was accelerating parallel to tariff reductions and since 1959 has grown more than the EFTA countries' exports to the EEC or other outside countries. The results of trade between EEC and EFTA for 1964 for the first time indicated very clearly that the tariff differences between the two integrated areas are beginning to show effects. While between 1959 and 1963 the EFTA countries' exports increased by approximately 12 % annually, in 1964 they rose by about 6.5 % only. Imports, on the other hand, increased by more than 13 % in 1963 as compared with the previous year. However, already in 1963 the foreign trade surplus of the EEC vis-à-vis EFTA declined by 10 %. Up to 1964 among the EFTA countries it was Britain alone that increased its exports to the EEC more rapidly than its exports to EFTA.

#### Consequences for Hamburg's Economy

This development as described above was to be expected as a result of the existence of two integrated European economic areas. A seaport and commercial city that like Hamburg attaches great importance to a free goods trade with all countries of the world has to watch with reserve any regional formation of economic groups due to the diversions of trade and disintegration effects connected therewith. Therefore Hamburg, although in principle being in favour of European integration, emphatically always opposed a limited EEC with a protectionist foreign trade policy. It is welcome news that recently Scandinavian quarters, too, demanded new incentives for an understanding between the two European economic blocs. There is an opportunity that the national full employment policies initiated by the world-wide depression might be replaced by a new international division of labour between the industrial countries, as well as between them and the developing states. To take advantage of this opportunity will not be possible unless any part integration is not an end in itself but a step towards a new organisation of the world economy as a whole. This objective can only be obtained on the basis of regional approaches.



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TELEGRAMS: "FAIRPLAY" HAMBURG

A partial problem of the new formation of world trade which Hamburg also is observing with particular interest is the development of East-West trade. The integration effects of the COMECON areas are increasing the negative effects resulting from the division of Germany and the development of EEC, and impairing Hamburg's function as a forwarding agent for its East and Central European hinterland. This tendency is not disproved by the in absolute terms still increasing foreign trade and transit transactions with individual member states. Today Hamburg's trade with the whole of the Eastern bloc including the People's Republic of China has reached a volume of approximately DM 1,000 million, a figure that corresponds to a growth rate of about 15% vis-à-vis 1961. An observation of the individual countries is showing considerable differences and fluctuations from year to year. While for example trade with the Soviet Union declined in 1965 as compared with the preceding years, the trade volume with China has risen by 112% vis-à-vis 1961. These different developments are to a large extent dependent on political conditions and therefore cannot be influenced directly by Hamburg. It is true, though, that in many fields Hamburg already early developed and recommended ideas that later were reflected by concrete Government measures. This applies for instance to considerations of credit policy in Eastern trade and to the relaxation of the restrictive German import policy as regards industrial finished products from the East bloc.

While the East bloc's centrally controlled foreign trade is setting comparatively narrow limits to the Hamburg economy's adaptability, the above average expansion of the EEC's internal trade urgently required a strengthening of Hamburg's European business transactions. Some Hamburg firms recognised early the chances offered by this regional reorientation and have joined the rapidly growing internal trade within the EEC area—partly by branch establishments. This is a consequence resulting for example from the shifting of the seaborne bulk movements—for which the freight element is heavy—of the West and South German area from Hamburg to the ports at the mouth of the Rhine.

While imports and exports of Hamburg firms increased by barely 35% between January 1, 1961, and December 31, 1965, Hamburg's trade with the European states rose by 46%. During the same period the foreign trade volume with North America increased by 28% (USA: 37%), with Central and Southern America by a good 6%, with Asia by 16%, with Australia and Oceania by 17%, and with Africa extraordinarily much by 85%. This high growth rate is to be attributed to rising oil imports from Libya and the EEC-association of African states.

Analysed by economic blocs Hamburg's foreign trade with the EEC increased by 80% in the same period (1961/65), while its trade with EFTA rose by 32%. Imports from the EEC, in 1965 amounting to a value of DM 2,500 million, today participate in Hamburg's total imports with 16%, vis-à-vis a share of 12% in

1961. Imports from EFTA to the amount of DM 1,600 million (1965) participate in Hamburg's imports with almost 10% (1961: exceeding 11%). With the city's exports it is different. Here the share of EFTA amounts to DM 1,500 million or 27% (1961: 25%), while the share of EEC with DM 1,300 million is about 23% (1961: 17%).

### Improvement of Present Position

These figures are proving that the endeavours for an extension of Hamburg's position in European trade have been successful in the last years. Trade with the whole of the EFTA area is (still) showing a comparative stability during this period although there were pronounced shiftings in the case of individual EFTA members. However, an unambiguous statement whether and to which extent the tariff difference between the EEC and EFTA has led to a retrograde trade between Hamburg and the individual EFTA members is impossible.

The increased orientation of Hamburg's foreign trade towards the European business is not linked with an abandoning of the city's traditional position in overseas areas—i.e. today mainly developing countries. But maintaining this position also requires adaptation measures stemming above all from the developing countries' increased industrialisation efforts and the resulting changes in the range of goods making up the flows of trade.

Today the Hamburg export trade has to renounce to a large extent its former domain, the export of consumer goods, since at present many developing countries are limiting these imports. The export firms must therefore try to participate more in the technical business and in the supply of capital goods as it is these goods in the first line that are required for the establishment of new industries in developing countries. But the export of investment goods is by no means a new kind of business to many merchants. Already in the 19th century they did this type of business, although frequently as a kind of side-line.

Also in imports from overseas countries there is being felt the change brought about by the developing countries' efforts for the establishment of their own industries. For the Hamburg importers it is a matter of striving for increased imports of finished products in addition to maintaining the traditional imports of raw materials and agricultural products. As already in the past imports and exports will frequently mix as exporters additionally import finished products.

Changes in the world markets and certain integration effects (discrimination of non-member countries within the framework of EEC agricultural policy) do not only influence Hamburg's foreign trade but also the city's industry. Above all the typical and traditional seaport industries which—as e.g. mills, feeding stuffs industry, oil mills and the margarine industry—are basing on the processing of imported raw materials, showed a slowing down of their growth partly already in the last years.

In order to counterbalance industrial branches with a weak expansion rate, the extension and new settlement of growth industries is to be recommended. Already in the last years a comprehensive set of instruments of regional policy measures has been devel-

oped in order to continue promoting Hamburg's function as an industrial centre. But also in future the city's position and importance will be decisively based on inter-regional and overseas business connections.

## World Business Trends

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### Strong Growth of World Trade

The strong expansion of world trade has continued in the first half of 1966. Foreign trade turnovers in the western world were by 11% higher than during the corresponding time of the previous year. Granted, the growth rate declined considerably from the first to the second quarter of 1966, but essentially this is only a question of "statistical repercussions" of the dockers' strike in the USA in early 1965.

The increase in import demand was above average in the industrial nations. Most striking was the increase in imports in the USA (+ 21%) in the first half of 1966, this applies also in case of previous year's strike influences being excluded. With increasing utilisation of domestic resources the rapid expansion of demand was above all for the benefit of foreign suppliers. In Japan, on the other hand, imports (+ 12%) were stimulated again at the beginning of the recovery phase already. Imports in the West European countries (+ 11%) continued to increase only a little more slowly. However, imports in overseas developing countries increased considerably more slightly (according to first calculations of the World Monetary Fund by approx. 5%; in the developed primary producing countries Australia and South Africa they even decreased.

In West Europe a distinct differentiation was prevalent. Apart from some small economies with an extraordinarily great increase in imports—namely Spain, Yugoslavia and Austria—imports in-

creased considerably, due to the continuing recovery, in Italy and France (first half of 1966: + 18%, and + 15%, respectively). In the Netherlands and Belgium the growth was also considerable, whereas the Federal Republic of Germany and the United Kingdom (+ 8% and + 6%, respectively) remained below average. The same applies to all Scandinavian countries and Switzerland.

The strong increase in imports in the industrial countries stimulated especially the exchange between the industrial countries themselves. This intensification of their mutual interdependence occurred not only in the West European but also in intercontinental trade between the highly industrialised economies. In the first half of 1966 the increase in exports in West Europe (+ 10%) and in Japan (+ 13%) was considerably influenced by this. Due to the previous year's dockers' strike the USA (+ 14%) offer a very distorted picture; adjusted, exports rose only slowly. The brisk import demand of industrial countries was also in favour of the raw material countries. In the first half of 1966 their exports obviously increased more than on the annual average 1965 (according to first estimates by 8 to 9%).

In the first half of 1966 the industrial countries increased their imports from commodity countries more strongly than their exports to them. Consequently the balance of trade deficit (imports cif) of the industrial countries as a whole was

considerably bigger than in the previous year's corresponding period. In particular the decrease of the export surplus in the USA as well as the increase in the import surplus in West Europe contributed to this. Only in Japan there was no noteworthy change. The reverse of this development in the industrial countries was most conspicuous in the extraordinary trade balance improvement in the developed primary producing countries. But obviously the overseas developing countries, too, have increased their export surplus.

Despite the relatively favourable development of their export incomes the overseas developing countries increased their imports only at the same moderate rate as in 1965. The corresponding deliveries of West Europe have increased particularly slightly (OECD-countries, first half of 1966: + 1% in comparison with the previous year). True, the trade balance is merely one determinant factor among others, of the balance of payments, but its favourable development has decisively influenced the balance of payments of the developing countries in general, for according to available data this group of countries has again increased its currency reserves. Apart from the unequal distribution it must not be ignored that the liabilities of the developing countries from the service of their growing debts vis-à-vis the industrial countries and international organisations have constantly grown; thus in view of the unstable export situation increased maintaining of reserves seems to be necessary.