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ments everywhere intervene, to a lesser or a greater extent, in agriculture but these interventions often respond to demands made by pressure groups rather than reflecting a conscious long-term policy. Yet a rational policy for agriculture can hardly be formulated without considering the future demand for and supply of foodstuffs and agricultural raw materials at home and abroad, trends in productivity, and the need for transferring manpower from agriculture to industry. Similarly, transport and energy policies should be based on an evaluation of future needs as compared to availabilities.

Differences in private and social profitability may further be associated with interregional differences in economic development, and in the postwar period several of the industrial countries have undertaken policies aimed at assisting undeveloped and declining regions. These policies have often lacked coordination, however, and little attention has been paid to their cost in terms of alternatives foregone. Thus, efforts have been made to support the economy of declining regions or to develop regions with poor natural resource endowments, thereby reinforcing the rigidity in the locational structure. With regard to Sweden, it has been suggested, for example, that by reserving government assistance "primarily for localities with high unemployment, or where a relatively small proportion of the population is employed in manufacturing industry, the Committee (in charge of regional problems) has probably selected with a high degree of precision regions with especially poor natural facilities, and thus also with limited development potential".¹⁸

NORTHERN EUROPE

Approaches to Commercial Integration

By Dr Alfred Dietrich, Stockholm

On November 21, 1966, an agreement has been concluded in the Ministry of Foreign Affairs at Stockholm, that, according to the statement of the Swedish Minister of Commerce, Gunnar Lange, is a "very obvious proof" of the North European countries' co-operation and, so to speak, has to be considered the climax of endeavours to obtain a commercial integration of this group of nations—efforts lasting for decades already. On this day an agreement on joint actions of the Northern countries within the Kennedy Round of negotiations on world-wide tariff reductions within the framework of GATT was signed by Denmark, Finland, Norway and Sweden. The chief negotiator, Mr Montan of Sweden, is in charge of "conducting the negotiations of the North European delegation and after having been authorised by the Governments of the four countries will make binding

A rational policy would take account of the long-term development potential of the economy, and would aim at facilitating the process of transformation rather than hindering it. This, in turn, would require the evaluation of possible costs and benefits that can hardly take place without establishing a consistent framework for decision-making. Regional economic policy in Norway appears to be moving in this direction by favouring larger and stronger units instead of trying to help small, unviable communities as in the past, and by attempting to avoid the possibility that local authorities outbid each other in attracting industries.

It would appear, then, that the recent emphasis on planning on the industry level in developed countries has been largely misplaced. In the face of the uncertainties associated with foreign trade and the limitations of policy investments available to governments under GATT and OECD regulations, government intervention in the private industrial sector has little to commend it. On the other hand, long term planning has a useful function in the public and semi-public sectors. It would ensure the rationality and consistency of government decisions in the public sector where prices do not provide a yardstick for choosing among alternatives. Further, a conscious long-term policy would appear desirable in the semi-public sector—agriculture, transport, and energy—where ad hoc interventions, taken often in response to special interests, give rise to inefficiencies. This shift in the objectives of long-term planning cannot fail to have a beneficial effect on the economies of developed countries.

offers in Geneva, to take binding decisions and make binding arrangements."

A judgement on the importance of this historical step of the Northern countries requires a short retrospective view at the structure of the economies of Denmark, Finland, Norway and Sweden as well as a description of former and present trade policy currents and developments in Northern Europe.

Structure of the National Economies

During the last hundred years Denmark developed a production of meat and dairy produce on the basis of cheap grain imports from abroad that sets an example for the whole world and as regards cost and quality was—and practically still is—superior to that of most other countries. In former decades industry was hardly of major importance, handicrafts, however, always have had a strong position.

¹⁸ Assar Lindbeck, "Location Policy", *Skandinaviska Banken Quarterly Review*, 1964 (2), p. 46.

However, the development of Denmark's economy, whose emphasis is on agriculture, was for the first time suddenly interrupted already in 1932. The worldwide depression of that time was the main reason for this development. Food exports declined so much that the country's currency reserves were completely spent within a short time. In spring, 1932, Denmark had to introduce import regulations and exchange control which only after the establishment of OEEC were abolished again. Protected by import regulation a new phase of the country's economic development began in the form of an at first slow and cautious expansion of industry which during the last ten years has been accelerated. Denmark's commercial situation has always been difficult but, nevertheless, it belongs to the group of countries with the lowest tariffs.

Before the war Finland's economic structure was characterised by the fact that agriculture and forestry had a stronger position than industry. During the first post-war years these two economic sectors approximately counterbalanced each other. The outcome of the war enforced extensive structural shiftings of the Finnish economy. The resettlement of several hundreds of thousands of Carelian farmers resulted in the development of an agriculture in Central Finland that up to now could only be kept going by high subsidies. The fulfillment of reparation obligations required an expansion of the formerly small-scale metal industry. However, in spite of intensive efforts and large-scale development activities even today the metal industry is one of the most sensitive points in the structure of the Finnish economy, for the metal industry's viability depends to a large degree on sales to the Eastern countries, above all the Soviet Union. For reasons of its employment the Finnish metal industry almost completely depends on the East.

Already before World War II the woodworking and wood-processing industries were the focal point of Finnish industry. Since the beginning of the West European integration efforts but also for reasons of its employment the Finnish wood-processing industry has been strongly developed on the basis of the country's huge forests. Finland's overall economic structure is one-sided since even today almost four fifths of total exports fall to the share of the woodworking and wood-processing industries. Thus these industries are predominating. This again causes a weaker position in the field of trade policy. Besides, the fact that Finland has always had the highest tariffs among the Northern countries tells its own tale.

Norway, too, does not hold a favoured position among the Northern nations. Its agriculture is developed to such an extent that apart from grain it can supply the country with all the food it requires. Up to twenty years ago and partly even today the Norwegian industry—similar to agriculture—is handicapped by its structure which is characterised by small and medium-sized enterprises. Apart from a few large scale firms the Norwegian industry was not

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able to succeed in the world markets. However, after the war there have been changes in this field. Today there exist large-scale enterprises in the wood-processing industry, in mechanical engineering, ship-building, mining and a.o. in the chemical-technical industry, enterprises that can compete with similar corporations in other parts of the world. After the war Norway built up an electrical industry which in spite of high investments is superior to that of many other countries as regards costs. Cheap power is one of the reasons for the brisk expansion of industry and for the increasing settlement of foreign enterprises.

The dominating economic sector, however, is shipping. Tonnagewise Norway is holding the third place among the shipping nations. Through its shipping the country is more closely integrated into the international economic process than the other Northern nations. For this reason, however, its dependence on international economic developments is also more pronounced. Due to not very favourable conditions applying to industrial locations Norway has always had high tariffs.

Sweden has always been the economically strongest country in Northern Europe. Beginning a good hundred years ago with Swedish quality steel, via "Tändstickor" (matches), the ball-bearing industry, the electrical industry up to the at present most modern

shipyard Arendal (Götaverken A/B) at Götene, Sweden has developed an industry that with regard to technics and organisation has the reputation of being worth of imitation all over the world. Quite in contrast to the other North European countries large-scale enterprises of international size have already developed in Sweden. Although even today the small and medium-sized industrial corporations are still predominating according to their production volume, the "big ones" are decisive for the development of foreign trade. Just now a most extensive economic concentration is going on in Sweden whose starting-point is to be found in the West European integration efforts.

With regard to food supplies Sweden is practically self-sufficient due to its agriculture. However, farming is too scattered to be able to compete with other countries. In addition there is the high wage level that weakens the competitiveness of Swedish agriculture decisively. Sweden just like Denmark belongs to the group of low-tariff countries.

Approaches to a Common Trade Policy

All North European countries have close relations to the world economy. Therefore it should be no accident that just in Northern Europe the first approaches to a common trade policy have been developed long before World War II. In December, 1930, the so-called Oslo-Convention was concluded to which apart from the Northern countries also other countries largely geared to foreign trade belonged, namely Belgium, the Netherlands and Luxemburg. In the Oslo-Convention these countries engaged to inform and to consult each other in the case of intended tariff increases.

When on April 16, 1948, the Organisation for European Economic Cooperation (OEEC) was founded, Denmark, Norway and Sweden participated of course. For reasons well-known Finland could not join OEEC. The above mentioned three North European countries were enabled by OEEC (and funds from the Marshall-Plan) to reduce import restrictions established during the war. When by the mid-fifties the OEEC-countries had reduced the major part of their import restrictions, the idea of an extension of the co-operation within OEEC also to tariffs was born. In this situation the European low tariff countries—the Benelux-Group, Switzerland as well as Denmark, Norway and Sweden—introduced activities aiming at tariff reductions on such goods and products that in the main are turned over within Europe. However, this European tariff-reduction-plan could not be realised. In 1956 a committee consisting of representatives of all Northern countries designed a plan for a North European customs union excluding farming, which, however, could not be realised. The probably most important reasons for the failure of the North European customs union should be the following: in the first place Norway dissociated itself from the project for economic motives. Due to the Norwegian economy's particular structure showing mainly small

and medium-sized enterprises, there were apprehensions concerning above all the competition of Swedish large-scale industrial firms. Secondly, it was established that the most important sales chances for North European products are to be found outside the North European area, i.e. in the Federal Republic of Germany, Britain and the United States. A North European market in the shape of a customs union was considered being too small.

The European Economic Community (EEC) having taken effect on January 1, 1958, provided a new and stronger stimulus for commercial activities of the Northern countries. Since negotiations on the establishing of a European Free Trade Area, which before had been introduced by Britain, had come to nothing, very soon after the taking effect of the EEC the project of the European Free Trade Association (EFTA) was designed under the leadership of Britain and Sweden. In November, 1959, the EFTA Agreement was signed. Denmark, Norway and Sweden belong to EFTA as full members. About two years later Finland became an associated member. Originally EFTA had two objectives: by this association a larger market was to be created for each of the member states and at the same time EFTA was considered a more favourable basis for further negotiations with the EEC.

The Present Commercial Position

Denmark, Norway and Sweden want the creation of a European common market which would include them too. For quite some time the juxtaposition of two West European economic groupings is worrying the North European nations enough. Danish foodstuffs have lost much ground above all in the German market. It is impossible to enumerate all aggravations Northern Europe is increasingly subjected to vis-à-vis the EEC.

Since for the present a West European common market does not exist, the North European countries' endeavours in the field of trade- and economic policy are directed towards strengthening the position of EFTA as much as possible. This purpose has been indeed achieved to a large extent. Within the EFTA area something like a North European market has developed. During the last four to five years foreign trade turnovers within the Northern area have increased much more than they did for each of the Northern nations vis-à-vis other countries. There are many indications that this trend will continue. With that Northern Europe as a whole obtains a considerably greater economic importance. This is a decisive reason for the Northern countries' common appearance in the Kennedy Round and may also be important for negotiations with the EEC which may become topical later.

For a long time already the Northern nations' attitude towards the EEC is clear in its main outlines. Denmark and Norway aspire to full membership. Sweden has decided in favour of an association with the

EEC. The Northern Europeans are free traders on principle. Up to now tendencies towards free trade have additionally been promoted by the fact that in all of the four Northern countries business trends and activities have developed so favourably as never before.

The Northern countries appear as commercial entity, as a "bloc" in the Kennedy Round. It is out of the question that they will pull their weight and use their importance as foreign trade partners. We can only wait and see whether the North will succeed in carrying through its commercial wishes and demands vis-à-vis its big partners.

World Business Trends

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World Economy

In the last year world trade expanded vigorously again. According to hitherto available data of the International Monetary Fund the foreign trade turnovers of all countries (excluding East-bloc states) rose by a good 9%, i.e. to about the same extent as in 1965. However, in the course of the year the slowing down of international economic growth setting in within Western Europe as well as in North America also influenced noticeably the development of world trade. Thus the growth rate of world imports decreased from 10.8 % in the first half of 1966 to 9.5 % in the third quarter and to scarcely 7 % in the last three months of the year.

Decisive for this slowing down was the reduced import demand in the West European economies. In the first half of 1966 their import values increased by 10.7% vis-à-vis the previous year's corresponding period, in the second half, however, by merely 6.0%. In particular the Federal Republic's import reduction contributed to this development. Simultaneously in North America a trend towards a similar development as in Western Europe set in. The growth rate of import values decreased from 20.4 % to 16.0 %. Here, however, distorting influences of the dock workers' strike at the beginning of 1965 might have contributed to this trend. As against that Japan's imports recovered vigorously in the course of the last year (first half: + 11.8 %, second half: + 21.5 %). According to hitherto available but still incomplete data the imports of overseas raw

material producing countries—with approx. + 4 % in 1966 after + 7 % in 1965—were smaller than in the previous year and much weaker than those of the industrial countries.

Since the reduction of demand originated above all from West European countries, due to the close international interdependence in this area, it was clearly reflected in the intra-European exchange of goods (OECD-countries). Its growth rate decreased from 10.8 % in the first half of 1966 to 7.2 % in the second half (up to November). As against that the advance of West European exports to the rest of the world accelerated even from + 9.2 % to + 11.5 %. Also in North America the unfavourable development of sales in Western Europe contributed considerably to a reduced growth of exports from + 15.2 % in the first half to + 9.4 % in the second half of 1966. In Japan, on the other hand, to which the European market is not of decisive importance, the expansion of exports simultaneously accelerated still (from 12.8 % to 18.2 %). Also the overseas raw material countries whose total exports should have increased somewhat in 1966 (+ 6 %), in the second half of 1966 obviously experienced first repercussions of the slackening demand in Western Europe.

Foreign trade fluctuations of raw material countries are always particularly strong in the developed ones of these economies, in Australia, New Zealand and South Africa. As regards exports this is above all a result of the high share of wool, whose production,

demand and prices show considerable fluctuations. Thus in this group of countries a reduction of export values by 2.0 % in 1965 was followed by an advance by 7.8 % in 1966. Imports experienced even more pronounced fluctuations: an increase by 13.4 % in 1965 was followed by a contraction of 3.3 % in the last year. This reflects the rapid change of business trends and economic policy, that is frequently initiated just by this export development.

Foreign trade of the other overseas raw material countries, which are identical with the developing countries outside Europe, is developing much more continuously if only due to the big number of economies comprised in this group and the different determinants of exports and imports. Just here the data hitherto available for the last year are still very fragmentary. All the same, the industrial nations' (OECD) corresponding imports indicate that in 1966 the developing countries were able to increase their total exports somewhat more than in 1965 (+ 6 %), without, however, being able to maintain their share in world trade.

In 1966 the developing countries' total imports—as measured against the corresponding exports of industrial nations—should have grown to the same extent as in the previous year (i.e. also by about 6 %). It is, however, remarkable that here in the course of the year a vigorous acceleration prevailed after an at first relatively moderate growth. From July to November the industrial countries' deliveries surpassed the previous year's corresponding values by