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EEC

Number One in International Trade

by Udo Hammer and Dieter Stentzel, Hamburg

Twelve years have passed since the foundation of the European Economic Community (EEC) and of the European Free Trade Area (EFTA) — originally conceived by its seven founder countries¹ as counterweight to the EEC. Since then the "Community of the Six" has become increasingly more attractive to its European neighbours as a dynamic force moving towards European unity. Having "completed" their customs union and their common agricultural market the "Six" began to take steps towards a further "strengthening and deepening" of their relations through creation of a monetary and economic union. In spite of numerous crises and controversies which at times overshadowed the European movement towards integration, the Six nevertheless managed at the summit conference at The Hague in December 1969 to agree on the question of enlarging the community. The better the Community succeeds in giving such slogans as "strengthening", "deepening" and "enlarging" some concrete political content, the more effective will the EEC as a whole—and no longer its individual members—become as a political and economic factor in world trade. Even today it possesses an economic potential of great weight in terms not only of European but also of world trade, and that weight will grow still further in importance, if and when the negotiations about the joining of Great Britain, Eire, Denmark and Norway have been successfully concluded.

Internal Trade Expansion

In 1969, the member states of the Communities accounted for more than a quarter of the total world trade or nearly one third of world exports (excluding the trade of the Eastern bloc). This means that since the foundation in 1958 of the Common Market, when their share in world trade amounted to 23.7 p.c., the member countries have

improved their position by increasing their exports to a very large extent; these increases exceeded the general expansion of world trade, which amounted to 144 p.c., by a further 88 points. As against this the position of the USA and Canada together has remained about the same, accounting for roughly 20 p.c. of the world's trade, while the share of the EFTA-countries steadily declined by 2 points to less than 13 p.c.

The sharp increase of exports is admittedly largely due to an expansion of trade between individual EEC-countries. The development of trade between the EEC-countries clearly shows the effects of integration. The flow of trade between them increased to a much greater extent than that with third countries. The trade of all six member-states has become much more interlocked as can be seen from the fact that the exports of each of these countries to other EEC-countries have risen more than their exports to the rest of the world. The effects of integration were particularly marked in the case of France whose share of exports to EEC-countries in proportion to its total exports expanded from 1958 to 1969 by 25.6 p.c. points. Relatively slight were the integration effects in the case of the Federal Republic of Germany (plus 12.5 p.c. points).

The effects of integration on imports were again particularly strong in France whose share of imports from the other member countries increased by 28.6 p.c. points. On the other hand, Belgium's and Luxemburg's share of EEC-imports rose by only 10.8 points for the simple reason that trade between the other EEC-members and these two countries had already reached 46.4 p.c. in 1958, indicating the high degree of integration which already existed in 1958. Belgium and Luxemburg have thus reached the highest degree of integration among Common Market countries, depending on the other EEC-states for 68 p.c. of their exports and for 57 p.c. of their imports, whereas the share of the Federal Republic's exports to its

¹ On March 1, 1970, Iceland became member number eight of EFTA.

Table 1
EEC Exports to Non-EEC Countries by Country of Origin and Commodity Class 1968
(In per cent)

CST	Merchandise Category	EEC		Germany (F.R.)		France		Italy		Netherlands		Belgium/Luxembourg	
		a	b	a	b	a	b	a	b	a	b	a	b
0-4	Food and raw materials	100	14.0	17.9	5.8	28.9	19.9	19.3	15.7	25.9	36.2	7.9	13.5
0, 1	Foodstuff incl. beverages and tobacco	100	7.1	11.1	1.8	39.5	13.7	18.6	6.8	28.2	19.9	4.6	4.0
3	Fuels	100	3.7	21.8	1.9	14.3	2.6	28.6	6.2	24.6	9.2	10.6	4.8
2, 4	Raw materials	100	3.2	28.5	2.1	22.6	3.6	14.7	2.7	22.1	7.1	12.1	4.7
5-8	Manufactured goods	100	84.8	48.2	92.9	19.2	79.7	17.1	83.9	7.4	62.5	8.1	83.2
7	Machinery and transport equipment	100	39.4	55.6	49.8	17.6	33.9	18.2	36.9	6.6	25.9	4.0	19.3
5, 6, 8	Other manufactured products	100	45.4	41.7	43.1	20.6	45.8	17.9	47.0	8.1	36.6	11.6	63.9
9	Merchandise and transactions not classified	100	1.1	50.0	1.3	7.7	0.4	6.5	0.4	11.9	1.4	23.9	3.3
0-9	Total extra-EEC exports	100	100	43.9	100	20.5	100	17.3	100	10.1	100	8.3	100

(a) The figures shown in columns 'a' indicate—from left to right—the share of the relevant member state in the total extra-EEC exports of the commodity class concerned.

(b) The figures shown in columns 'b' indicate—from top to bottom—the share of the commodity class concerned in the relevant country's export to non-EEC countries.

Source: Statistical Office of the European Communities, SOEC: Foreign Trade, Monthly Statistics, 1970 — No. 4.

EEC-partners and the share of Italy's imports from the other Common Market countries are both still less than 40 p.c. In 1969, the internal trade of all the EEC-countries with each other—imports as well as exports—reached 48 p.c. of their total foreign trade.

Exports to Third Countries Decisive

If one regards the EEC as a kind of domestic market², it follows that only its trade with third countries (extra-EEC-trade) has any significance when it comes to judging its importance in terms of world trade. If one deducts intra-EEC-exports from world exports, and relates the result to EEC exports to third countries, one finds that in 1969 the EEC's share of world exports³ amounted to roughly 19 p.c., thus exceeding those of the United States by a slight margin; it was in 1965 that US exports were overtaken for the first time by those of the Common Market. The increase in EEC exports to third countries has been largely due to an above-average expansion in the exports of industrial goods. For the purposes of this article industrial goods are those classified in the international statistics under groups 5-8 SITC⁴.

In 1968 industrial goods accounted for roughly 85 p.c. of extra-EEC-exports, and about half of them came from the Federal Republic. About one fifth came from France and more than 17 p.c. from Italy. These were the EEC's three most important exporters of industrial goods. In the category of

equipment goods in the form of machinery and vehicles the proportion of EEC exports from the Federal Republic became greater still — 56 p.c.

Trade Balance with the Rest of the World

The scale of importance is quite different when it comes to exports of foodstuffs and raw materials (SITC 0-4). Totalling 14 p.c. they account for only a relatively small part of the Community's exports. They are nonetheless of considerable importance for some of the member countries where they represent a relatively high proportion of total exports to third countries as for instance more than 36 p.c. in the case of the Netherlands and nearly 20 p.c. in the case of France. These two countries' contribution to the EEC's exports under group SITC 0-4 makes up roughly 55 p.c. of the total. For further details about the structure of exports to third countries, their importance for the EEC as a whole, the individual member states and their relative significance for the Community see Table 1.

If one relates total EEC exports to third countries to the GNP of the Community one arrives at a quota which in the course of the twelve years since the foundation of the EEC has fluctuated between 9.3 and 10.3 p.c. The largest contributors to these exports have been the Federal Republic and Italy, whose contributions have risen to 44 and 17 p.c., respectively. On the other hand, the contributions of France (20 p.c.), the Netherlands (10 p.c.) and Belgium/Luxembourg (8 p.c.) have been steadily declining. The United States by comparison exported during the period under review no more than 4 p.c. of its GNP, and this low percentage is to a large extent due to the relative size and purchasing power of the American home market.

² 1969 was the first complete year without customs in the Community.

³ Without the Eastern bloc.

⁴ Using the revised system of SITC (Standard International Trade Classification), and for the EEC the more extensive classification system of CST (Classification Statistique et Tarifaire/Classification for Statistics and Tariffs).

Table 2
Balance of Trade of the EEC
 (+/- = export/import surplus in million US-\$)

Regions	1958	1960	1965	1966	1967	1968	1969
Extra-EEC	- 245	+ 39	-1,489	-1,337	+ 734	+1,725	- 6
of which							
Industrialised Countries	+ 112	+ 539	+1,385	+1,807	+3,465	+4,236	+3,370
EFTA	+1,362	+2,050	+2,706	+2,754	+3,329	+3,371	+3,295
USA	-1,114	-1,588	-2,268	-1,924	-1,474	- 624	-1,368
Canada	- 193	- 157	- 108	- 105	- 96	- 120	- 110
Developing Countries	- 699	- 747	-3,019	-3,369	-3,294	-3,201	-4,005
Associated States ¹	+ 297	+ 199	- 256	- 515	- 382	- 302	- 348
Africa ²	- 108	+ 54	- 665	- 891	- 851	-1,162	-1,642
Asian Middle East ³	-1,110	-1,012	-1,438	-1,378	-1,614	-1,708	-1,633
Central and South America	- 43	- 177	- 908	- 825	- 754	- 353	- 589
East Bloc Countries	+ 191	+ 109	- 115	- 48	+ 285	+ 403	+ 316
Eastern Europe ⁴	- 52	+ 17	- 157	- 124	+ 91	+ 251	+ 247

¹ Associated African states (incl. Algeria), Madagascar and the associated overseas areas of the EEC.

² Excluding associated African states and French Départements d'Outre-Mer.

³ Including Cyprus and Iran.

⁴ Including USSR. Excluding Interzonal Trade between Western DM and Eastern DM currency areas.

Source: Statistical Office of the European Communities, SOEC: Foreign Trade, Monthly Statistics, 1970 — No. 3, No. 4.

If one takes into consideration not only the exports to third countries but also the imports from them, one obtains the following picture. The Community's trade balance with the rest of the world was in the period from 1958 to 1969 predominantly unfavourable. Only in 1959/60 and 1967/68 was an export surplus achieved. Only the Federal Republic regularly managed—with one exception, in 1960—to have an export surplus in its extra-EEC-trade; France achieved a surplus for the period from 1959 to 1961 and the Netherlands in 1960. All in all the EEC was however a net-importer as far as the rest of the world is concerned.

Chances for Developing Countries

The global import surpluses of the EEC occurred in the trade with some important industrial countries outside Europe and also in the exchange of merchandises with developing countries. The United States, on the other hand, regularly show

export surpluses. These surpluses occurred not only in its trade with developing countries but also—with the exception of 1968/69—in its trade with the industrial countries. This means that the EEC because of its international trading position is more inclined than the USA to help the developing countries in their endeavours to increase their sales abroad.

Similar trends also become apparent when one compares the goods structures of the foreign trade of the EEC and USA. The composition of the goods exported by the EEC to third countries and the goods which constitute US exports differs greatly. Whereas EEC imports are characterised by a high content of foodstuffs, fuels and raw materials (SITC 0-4), these goods which are traditionally of great importance to developing countries play absolutely and relatively a much less important role on the import-side of the American trade balance. In 1968 US imports of

Table 3
Comparing Commodity Structure of Foreign Trade of the EEC, USA, and World 1968
 (in million US-\$)

CST/ SITC	Merchandise Category	EEC Excl. Intra-trade		USA		World ¹ Excl. Intra-EEC
		Imports	Exports	Imports	Exports	
0, 1	Foodstuffs incl. beverages and tobacco	6,092	2,510	5,364	4,561	30,421
3	Fuels	6,034	1,318	2,529	1,056	21,586
2, 4	Raw materials	7,219	1,138	3,454	3,769	25,506
5-8	Manufactured goods	13,639	29,921	20,548	23,653	63,434
7	of which Equipment	4,590	13,907	7,991	14,462	57,607
0-9	Total	33,542	35,290	33,002	33,925	209,770

¹ World Trade (incl. Eastern Bloc) computed by means of export values excluding inter-trade between PR China and Mongolia, PR Korea and Rep. Korea, DR Vietnam and Rep. Vietnam, and the Interzonal Trade (Germany).

Source: Statistical Office of the European Communities, SOEC: Foreign Trade, Monthly Statistics, 1970 — No. 4; United Nations: Monthly Bulletin of Statistics, March 1970, Special Table E.

this category were valued at \$ 11 bn, representing 35 p.c. of the total whereas the EEC imported nearly \$ 20 bn worth of goods of the same kind or 58 p.c. of total imports. On the other hand, the EEC competed less strongly in the export markets for such products—solid fuels excepted—with the result that EEC exports in the field were considerably smaller than those of the Americans.

On the world market for industrial goods which is supplied to the extent of 85 p.c. by the USA and the EEC, the latter exports more both in absolute and relative terms, than the USA which for its part imports many goods of this category (SITC 5—8). Thus, viewed from the standpoint of world economy, the goods structure of the EEC's foreign trade corresponds for the most part to the sales possibilities of the developing countries in as much as the Community imports large quantities of raw materials and foodstuffs, while exporting to them the greater part of the industrial goods they require (EEC exports of industrial goods make up nearly 50 p.c. of total world market supplies). The USA, on the other hand, is, as far as the goods structure of its foreign trade is concerned, in strong competition with the developing countries. It may be noted in passing that in 1969 EEC development aid for the first time exceeded that given by the USA.

Consequences of a "Community of the Ten"

The negotiations on the possible accession of four new members to the Community will have to be concluded before the effects of such an expansion on foreign trade flows can be assessed. There is no doubt, however, that the position of such a "Community of Ten" will be greatly strengthened from a quantitative point of view. Assuming that the flow of trade is unaffected by the integration of four member states and remains at the 1969 level, the Ten would between them provide about 40 p.c. of world's exports of goods. If one subtracts from this the trade exchanges of the Ten among each other, their joint exports to third countries would still amount to a good 25 p.c. of total world exports, compared with

roughly 19 p.c. which the Six currently supply. Thus the extended Community would become by far the greatest trading unit.

The experiences of the Six make it, however, reasonable to expect that integration of four new member states will lead to an intensification of inter-community trade. This need not necessarily be accompanied by a reduction of the trade of the four new member states with third countries. Given a sufficiently long transitional period and provided special arrangements are made with the remaining EFTA-countries as well as with New Zealand, it should be possible to mitigate the adverse effects on the new member countries' traditional trading partners, for the volume of world trade may be expected to continue growing.

The trade in agricultural produce will be decisively affected by the new market regulations. It is more than likely that Britain's food imports from overseas will decrease, for home production and imports from the Continent should increase. The overall effect may well be a shrinkage in the Community's total food imports and exports compared with the hypothetical state of trade relations in 1969. On the other hand, Denmark's agricultural output may well aggravate still further the already pressing problem of farm produce surpluses. This in turn may tempt the politicians to proceed still further along the politically easiest way of subsidising surplus sales to third countries, thus reducing their prices to world market levels.

If the African states of the Commonwealth were to be granted the same preferences the present associated states now enjoy, the consequences of such a decision would not be confined to the trade relations between member states. An arrangement to this effect would certainly meet with opposition from those remaining outside. A confrontation of the EEC and the USA in the fields of foreign trade and foreign policy is clearly discernible even now. And GATT will have an even more difficult task to avoid trade-political "escalations" and to keep negative effects on third countries as small as possible.

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