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Article — Digitized Version

Germany in the enlarged common market

Intereconomics

Suggested Citation: Kebschull, Dietrich; Bethke, Volker; Schams, Rasul (1971) : Germany in the enlarged common market, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 06, Iss. 10, pp. 299-303,
<https://doi.org/10.1007/BF02929127>

This Version is available at:

<https://hdl.handle.net/10419/138534>

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United States, Australia and New Zealand. The latest White Paper estimates of Britain's prospective contributions to the Common Market's agricultural fund are based on the narrowed gap between Community and world producer prices for feed and foodstuffs. While the Government and some economists, notably T. E. Josling, argue that the gap will steady or narrow still further, agricultural traders expect the gap to widen again as normal or bumper outputs are resumed in agricultural producing countries.

At any rate, the White Paper estimates Britain's net budgetary contributions at £100 mn rising to £200 mn in 1977; and the Whitehall estimate for afterwards

is £300 mn or more. The White Paper adds another £50 mn a year after the transition period for the higher cost of food imports.

Balance-of-Payments Cost

On current account, the balance-of-payments cost could well be in the region of the frequently quoted Whitehall figure of £500 mn, which is acceptable to those who are confident about the dynamic benefits of Common Market membership. But the possible effects of economies of scale, greater specialisation and keener competition will not be felt in the transition period. It cannot be said, however, that the short-run costs are insurmountable and,

in the last resort, they can always be passed on.

In the final analysis, therefore, the effect on the United Kingdom, with its world-wide trading and investment interests, of joining the European Community depends greatly on what happens in a global context. It is vital, as the recent dollar crisis has underlined, that the enlargement of the European Community should be followed by multilateral trade negotiations, bold and imaginative enough to counter the protectionist trends that are developing all round the world¹⁶.

¹⁶ On this theme, see H. Corbet, "Global Challenge for Commercial Diplomacy", Pacific Community, Tokyo, October, 1971, where the free trade treaty proposal is discussed in the light of the European Community's enlargement.

Germany in the Enlarged Common Market

by Dr Dietrich Kebschull, Volker Bethke, Rasul Schams, Hamburg

The agreements of Luxembourg have brought a positive end to the discussions on Great Britain's accession to the EEC, which had lasted for years. On July 7, the British Government submitted a White Paper, which—basing on these agreements—evaluates the effects of an EEC-membership for Britain. Although no detailed quantification as in the White Paper of 1970 can be found, the paper gives data on costs and benefits of this step.

Even this rough evaluation is missing up to now for particular EEC members—a fact, which may have its roots in the predominating advantages. Britain's joining has without doubt also for the Federal Republic of Ger-

many repercussions, which touch the field of domestic as well as economic policy.

Strengthening of the European Idea

For the Federal Republic in particular the political shift of emphasis emerging from an enlargement of the EEC can be significant. This is true for the situation within the EEC as well as its position vis-à-vis the outside.

Within the EEC, Germany has up to now—despite its economically leading role—been regarded as a political junior partner of France. An enlarged community, in which France, Britain, Italy and Germany have

a balanced position, offers the chance to change this. The national interests, being excessive in the EEC, could perhaps be pushed back and the "European" idea could be strengthened.

For the Federal Republic and its policy this means, on the one hand, additional political scope, but, on the other hand, the possibilities of conflicts grow. Particularly under the aspect of an independent foreign policy outside the Community, Britain's membership will be welcomed by Germany. This applies above all to the special relationship to the USA, which was often the root of economic and political tensions. West Germany frequently carried out plans—with

or without the support of the smaller partners—which were opposed by France (e.g. in the field of monetary policy or trade policy). Due to the similarity of the political and economic relations of Britain and Germany with the USA, the joining could give the opportunity in many cases to enforce Germany's interests much better.

At the moment their "Ostpolitik" is of particular importance for the Germans. As an enlarged EEC will be politically stronger and therefore respected, not only a better adjustment inside the EEC, but also a more intensive adjustment in the field of EEC-consultations with the Western allies should be possible.

Apart from the political shifts, which should be initiated by the agreements of Luxemburg and which in Bonn have been described very solemnly (Brandt: historical hour, Hallstein: historical event), Britain's membership will lead to economic changes in Germany, which can be described much more clearly and can be considered more realistically.

FRG-EEC Relations Untouched

When judging the question, how these changes will influence the West German economy, one must consider the fact that today the FRG is to a high degree integrated in the EEC. In the economic sector, Britain's accession will bring no fundamental change in the relation of the Federal Republic with the EEC. This can already be deduced from the intention to perform the joining so smoothly that the advances hitherto reached in the Community will not be disturbed.

The most important agreement in connection with Britain's accession—as far as it touches Germany's interests—is the ques-

tion of financing the common household. A significant change in the burden must not necessarily be expected for Germany. True, the expenditure for interventions in the EEC domestic market, for subsidies for agriculture and for the refund for exports to third countries would increase¹. On the other hand, the financing of structural measures in the case of a joining will have to be intensified. This item will however burden mainly those members with the greatest progress in production, which means also Britain! The rate of contribution of 19.99 p.c. for Britain, agreed on for the first year, which by 1975 will rise to 20.56 p.c. and the expected joining of the remaining three candidates would make corresponding decline of the rates of the present members possible. In the long run, this would bring a certain relief.

Intensified Specialisation and Division of Labour

But during the period of transition Great Britain is not forced to pay the total sum to the common budget. The transitional measures provide a reduction of the actual rate to 8.64 p.c. (instead of about 20) in the first year and an increase by 1977 to 18.92 p.c.². If one also considers that similar transitional agreements have been made with other candidates, the change of burden in favour of the FRG will nevertheless at first be very small.

Although no significant changes regarding the regulations on the relation of the Federal Republic with the EEC can be expected, the German economy may indirectly benefit from some of the advantages of Britain's accession to the EEC. It is for instance

guaranteed, that by the joining the process of specialisation and division of labour, which within the Community is still in progress, will be intensified and will get new impulses in an enlarged Community. Beside these general growth effects (the opening effects of any integration), which can hardly be quantified, there are those advantages emerging from a more advanced British technology.

The possibilities which Great Britain can offer in the field of personnel and finance are of significance especially in respect to the filling of the much discussed technological gap vis-à-vis the USA. The addition of the British technological potential to that of the EEC alone does however not guarantee the realisation of the expected advantages. For, up to now, there have been no forms of successful cooperation within the EEC. In view of the difficulties in connection with elaborating common programmes within the EEC, the Commission therefore emphasises the necessity of a coordinated policy in the field of technology, by means of which these difficulties can be surmounted³. This requirement is even increased by Britain's joining and nourishes the hopes for success.

The City of London

Apart from technological advantages also those must be mentioned, which are a result of the special position of the City of London. London is the leading banking and finance centre in Europe. In the international assurance, gold and commodity markets, London will be of particular importance to the EEC and can be a valuable com-

¹ See Stellungnahme der Kommission an den Rat zu den Beitrittsge-suchen (Memorandum of the Commission to the Council Concerning the Entry Applications), October 1969, p. 86.

² U.K. and the European Communities, White Paper of 7. 7. 1971; in: Financial Times of July 8, p. 17–20, especially p. 18 seq.

³ Stellungnahme der Kommission, op. cit., p. 65 seq.

plement to Frankfurt, which is the leading international capital market.

Great Britain's membership implies however—apart from the advantage of specialisation, additional technology and the knowhow of London—also direct economic consequences for Germany. The extension of the customs union to Britain has an immediate influence and will lead to a change in the trade flows. German foreign trade with Great Britain cannot be described as remarkable. But with about 4 p.c. in imports and exports it reaches the level of Germany's trade with the Eastern Socialist countries, which has always been considered as very important.

Raise in Trade

Since the existence of the EEC, the British percentage in West German imports has slightly fallen, whereas England's share in the total exports of the FRG has almost remained constant (see table). Against this, the import and export share of EFTA members in German foreign trade has fallen steeply. The corresponding shares in the EEC have in the same period considerably increased.

The evolution to be seen from these figures shows that the abolition of customs barriers will now also lead to a rise in the trade volume with Britain, as it has been formerly in the EEC. An exact analysis of the repercussions of the cost and price effects induced by the abolition of customs barriers

Export and Import Shares of EEC, EFTA without Britain, and Britain in the Foreign Trade of the FRG, 1958–1969

	Export shares		Import shares	
	1958	1969	1958	1969
EEC	25.6	39.8	23.1	43.3
EFTA without Britain	23.6	18.6	16.5	11.6
Britain	3.9	4.0	4.4	4.0
Other countries	46.9	37.6	56.0	41.4

Source: Materialien zum Bericht zur Lage der Nation (Data of the Report on the State of the Nation), Bonn 1971, Tables A5 and A7 in the Appendix of Tables.

requires however not only the knowledge of the corresponding elasticities, but also a calculation of the actual tariffs. No analysis but only some global statements are intended.

As far as the nominal tariff quotas are concerned, it must be remembered that, thanks to

the negotiations of the Kennedy Round, they will be eliminated between Great Britain and the EEC step by step until 1972. For the majority of raw materials there are already no longer any tariffs on both sides. On some important raw materials as aluminum, zinc and lead low or even nil customs tariffs are imposed in Britain; they are however subject to the common external tariff of the EEC⁴. Against this, differently high tariffs exist for several branches of the processing industry, the reduction of which will stimulate German exports to Great Britain.

The other way round, German imports from Britain will also rise considerably in some sectors. This will be especially the case with such industrial goods, which are subject to high tariffs between 14 and 22 p.c., which is due to the common external tariff of the EEC⁵ (e.g. commercial vehicles, plastics, chemicals, etc.).

As far as the British accession involves a vigorous growth process in Britain through strengthened trade as well as

⁴ See Britain and the European Communities, White Paper of February 1970, p. 22.

⁵ See U.K. and the European Communities, op. cit., p. 18.



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multiplicator and accelerator effects, this means additional chances for the FRG to expand its exports. For, imports depend in Great Britain, as all over the world, on the standard of living. However, in view of the low productivity of the British economy and the balance of payments situation the chances for an improvement are rather meagre for the near future.

But although expectations with regard to a short-term increase in trade between Britain and the EEC should not be exaggerated, the country's accession offers favourable opportunities for further export expansions of the Federal Republic in the long run. The chances of the German export industry to benefit from this depend last not least on the specific competitive position of the individual branches within the EEC and the possibility to penetrate the British market.

Advantages for the British Engineering Industry

The most important branches in trade relations between Germany and Great Britain are engineering, automotive industry and chemical industry. The engineering industry shows the strongest foreign trade links on the export as well as on the import side. It comprises 25 p.c. of German exports to Britain. A decline of exports registered in 1969 as compared with the preceding year had merely cyclical reasons. But with a share of 22 p.c. in Britain's machine imports, the West German engineering industry is, also this year, after the USA (31.7 p.c.)⁶ the most important foreign fitting country of the British industry.

It will not be easy for the West German engineering industry to

penetrate the British market in case of a tariff reduction. True, Britain's membership improves the position of Germany's engineering industry to deprive the US-competitors of their market shares, as for the Americans the hitherto existing burdens will remain the same; but British engineering is not only on the British, but also on the EEC-market a competitor with a sophisticated technical level. The high degree of specialisation as well as the experience in export business will make it possible for the British to win back that small share, which they must perhaps give up to Germany, on the European market — presumably on the shoulders of the Federal Republic. For, on the — seen from the angle of the British producers — relatively large market, the British engineering industry can work under improved conditions, while the West German competitors are confronted with a changed situation. That Great Britain's engineering industry will be able to utilise this advantage, can be deduced from the fact that British machine exports to the FRG have already in the past increased more vigorously than West German exports to Britain in the corresponding period.

Valuable Gaps ...

Another important branch is the automotive industry. The export value of automobiles in DM in 1969 equalled that of the engineering industry. At present imports from Britain amount to only about one quarter of the corresponding German exports⁷. In case of an abolition of import duties for cars going to Britain, which at present make up 13 p.c.⁸, the export efforts of German car exporters initiated

in the past will probably be further supported.

The main problem of the British competitors in their own country and in connection with their endeavour to penetrate the European and German markets, is the relatively high fighting mood of the British workers. Despite a rapid rationalisation⁹ the automotive firms themselves as well as their suppliers register high production losses resulting from strikes. The consequences are difficulties in the ability to deliver which have a positive effect for the foreign firms. An additional effect is that in the past prices for German cars on the British markets have relatively slightly risen. Moreover, not only this price stability, but also the reliability and durability of German cars in comparison with British cars is described as outstanding in British consumer and technical journals.

... for German Automotive Industry

In addition to this, valuable gaps in the British market are offered to the West German automotive industry, which it will try to fill more intensively after a tariff reduction; for, British firms tend to neglect the sector of middle-class cars of about 2 litres and thus leave it to the foreigners¹⁰.

In 1970, the sum total of these factors led to an increase of the import share in the cars sold in Britain from 10.4 to 14.3 p.c.¹¹ to the disadvantage of the domestic enterprises. In 1965, the market share made up only 5.1 p.c. Volkswagen led the foreign models with a share of 3.47 p.c. During the first three months of 1971, this market share could be

⁶ See NfA, Vergrößerter Maschinenaußenhandel mit GB (Expanded Foreign Engineering Trade with Great Britain), Frankfurt 19. 8. 1970.

⁷ See Materialien zum Bericht zur Lage der Nation, op. cit. p. 197 and 205.

⁸ Standard Prices of Imports would decline by DM 750—7500, see Handelsblatt, 17. 5. 1971.

⁹ See F. Franzmeyer, Zur EWG-Erweiterung (The EEC-Enlargement), DIW-Vierteljahresbericht, Heft 3, 1970, p. 221.

¹⁰ See Finanz und Wirtschaft, Automobilindustrie in der Krise (Automotive Industry in a crisis), Zürich, 2. 12. 1970.

¹¹ See The Financial Times, 15. 5. 1971.

expanded to 3.60 p.c., but the leading position had to be given up to Renault (3.66 p.c.)¹². This clearly shows that the British market gives room to the West German car exporters even in case of Britain's membership in the EEC — the Germans are however confronted with a strong competition from the other EEC-countries (especially Renault and Fiat).

Strong British Position ...

For the third large sector, the chemical industry, the situation is quite different. The share of chemical exports in total exports to Britain has remained almost constant since 1958 (1958: 13.8 p.c., 1969: 14.1 p.c.), whereas Britain's importance as a buyer has—measured by the West German chemical exports—steadily fallen (1958: 5.4 p.c. of total chemical exports, 1969: 4.3 p.c.). Following the EEC-countries, which rank first as buyers, Great Britain lies still behind Switzerland, the USA and Austria, namely at place 8.

It is doubtful, whether a development, which since 1958 has been registered in the EEC-area, will be repeated again after Britain's joining also with regard to British imports of chemical products. For, between 1958 and 1969 the EEC-partners raised their share in chemical exports of the FRG from 30 p.c. to 34.9 p.c. However, in 1970 the increase in chemical exports to Great Britain was also with 8 p.c. above average (7.4 p.c.). The growth in the EEC-area

¹² See Financial Times, op. cit.

reached only 4 p.c. A further penetration of the British market—in view of the relatively strong domestic industry and the already high growth rates, especially in the pharmaceutical sector—will not be easy.

... in Chemical Industry

The British chemical industry however judges the prospect of an expansion of its market quite positively. Despite the existing trade barriers, Great Britain has, during the past ten years, changed the regional structure of its chemical products fundamentally. In 1959, 42.7 p.c. of Britain's chemical exports went to the Commonwealth and 34.9 p.c. to Europe. In 1969, Europe bought more than one half (50.9 p.c.) of British exports, whereas the share of the Commonwealth-countries reached only 21.6 p.c. Production and export volume of the British chemical industry have grown more rapidly than the corresponding figures of Britain's total industry.

Britain's accession to the EEC will confront the German chemical industry not only on the British, but also on the EEC-market with a competitor, who, despite smaller growth rates as compared with West German chemicals, has shown a relative flexibility in the past.

Trends in other Industries

Apart from those branches having been most important hitherto in the framework of the foreign trade relations, there will be shifts in various second-

ary sectors. Imports of metals from Britain to the Federal Republic in 1969 in terms of value ranked with 11.9 p.c. of total imports from Britain second behind machines (17.9 p.c.). If one considers that the EEC steel market could be described as a sellers' market in 1970, too, the nationalised British steel industry will find a gap under partly more favourable conditions. The reservations against the competitor "British Steel Corporation" have been uttered not so much on the German, but mainly on the French side. In the interest of a balanced competition within the EEC the demand was voiced to split the monolithic bloc of the British steel industry, which after the joining would alone make up 25 p.c. of the Community's steel production, into smaller units¹³. However, the German steel industry keeps its temper, as it hopes that its own concentration efforts can be realised more easily, if the BSC joins the EEC as a bloc.

The already mentioned British advance in technology will have a focal effect in the field of electronics, aeronautics and atomic energy. It is however difficult to make an exact prognosis. Britain's experience will largely by means of cooperation, have impacts for Germany, although here those difficulties must not be forgotten which have emerged in connection with common projects in the EEC up to now.

¹³ See Bedenken gegen Englands EWG-Beitritt (Doubts about Britain's accession to the EEC), Handelsblatt, 7. 8. 1970.



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