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## World business trends

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# WORLD BUSINESS TRENDS

## Western Europe: Becoming a Supermarket

Parallel to the gradual bringing up of Britain and the other future members to the degree of integration already attained within the EEC, tariffs and quotas existing between the Common Market and the rest-EFTA are to be abolished until July, 1, 1977. This will lead to a West European domestic market, which measured by the number of its citizens (1971: 291 mn) will be bigger, and measured by its purchasing power will be only slightly smaller than the US market. The trade relations with the outside world will, however, be subject to conditions characteristic of a free trade zone: while the extended EEC strives for common external tariffs, the rest-EFTA countries will maintain differing national tariffs.

### High Quota of Intra-trade

The future European free trade zone will be the most important factor in world trade. Although foreign trade of the "old EEC" with third countries had a bigger volume than that of any other economic bloc or state, the

importance for world trade of the future European free trade zone will be considerably greater still. Only slightly more than one third of its total foreign trade turnovers will be carried through with third countries. The share of the USA as the most important partner in this total will be almost one quarter. The combined share of all Eastern socialist countries totals to about half of this. Approximately two fifths of the "external" foreign trade turnovers fall finally to the share of LDCs.

### Chance for the Rest-EFTA

The transition to conditions similar to those in a domestic market will now not only apply to the relations between the "old EEC" and the joining countries but also to a large extent to the relations with the rest-EFTA nations. Here, too, it should be possible to reactivate considerable integration reserves. The market expansion resulting for these countries from a duty-free access to the "old EEC" (the present trade

status vis-à-vis the joining EFTA members remains unchanged) offers them the chance of a further specialisation of their offer by utilising mass production advantages. On the other hand, their industries will have to face keener competition, which, however, will promote even more than hitherto performance improvements.

### Favourable Position of Germany

Among the "old EEC" members particularly the Federal Republic of Germany should profit from the formation of a West European free trade zone. Last but not least its geographical neighbourhood to the remaining-EFTA members has contributed already in the past to the fact that among the EEC states the Federal Republic had by far the best trade relations with them. True, Germany's share in the foreign trade of these countries has declined slightly since the formation of the two West European economic zones at the end of the fifties. Obviously the commercial integrations had led to a reorientation toward a relative expansion of intra-trade within the EEC and EFTA areas. The future opening up of the markets will—with regard to the volume of trade flows involved—stimulate particularly its foreign trade.

Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1971		1972				
	July	October	January	April	July	August 4	August 18
<b>HWWA-Index * (1952–1956 = 100) ....</b>	<b>106.0</b>	<b>106.6</b>	<b>114.4</b>	<b>118.4</b>	<b>114.1</b>	<b>113.4</b>	<b>115.4</b>
Foodstuffs .....	99.7	99.1	113.3	111.6	104.8	103.4	109.2
Raw materials other than foodstuffs ...	109.0	110.3	114.9	121.7	118.5	118.2	118.3
Fuels .....	119.7	124.6	124.6	131.9	130.5	130.3	130.2
Raw materials for consumer goods ..	93.0	96.0	107.2	117.7	109.4	106.2	106.9
Raw materials for capital goods .....	109.2	105.0	110.2	114.1	112.8	114.2	114.1
<b>Reuter's Index (18. 9. 1931 = 100) .....</b>	<b>525.6</b>	<b>506.2</b>	<b>546.7</b>	<b>548.3</b>	<b>569.2</b>	<b>576.4</b>	<b>584.2</b>
<b>Moody's Index (31. 12. 1931 = 100) ...</b>	<b>370.9</b>	<b>366.8</b>	<b>389.2</b>	<b>395.8</b>	<b>420.4</b>	<b>423.3</b>	<b>428.2</b>

\* Index compiled by the Hamburg Institute for International Economics. On dollar-basis.

Although the intensification of trade relations will not occur all of a sudden, i.e. with the coming into force of the agreement on Jan. 1, 1973, it will come about already before the start of the last stage in 1977. It is to be expected that the enterprises will anticipate the tariff reductions in the fixing of prices and, if necessary, initially do without profits. The export of third countries into the new free trade zone will, on the other hand, be impeded by the

abolition of inter-European tariff barriers and, on the other hand, be improved by growth effects to be expected in this area by integration. On a whole, these exports will increase also in future, although their share in imports of the West European economies will continue declining. The effects originating from an extended European free trade zone should be difficult to recognise, since they are permanently superimposed by cyclical developments.

tons per month. As compared to overall consumption of rubber, these deliveries are indeed small. Prices are far more under pressure by the American authorities' capacity to increase these deliveries at any time since they still dispose of 300,000 tons surplus rubber.

In view of the ample supply in the near future the weak basic tendency in the rubber market should turn up again after the price stabilising factors have disappeared. Still, another price increase may be expected if a vigorously growing demand develops also outside the USA. This could be the case still before of the end of 1972 due to the distinct reinforcements of cyclical expansions in Japan and Western Europe.

Nevertheless, the change of the statistical situation in favour of the producers will continue to be vitiated by the substitution competition of synthetic rubber, which has continued to grow recently in spite of the low price level for natural rubber. In order to achieve better prices the rubber producers must continuously try to meet the processors' demands for composition and quality of natural rubber.

*Compiled by the Department on Business Cycles and Statistics of the Hamburg Institute for International Economics*

## Raw Material Markets

### Rubber Prices in the Rise

In the world markets for natural rubber, prices have risen considerably during the last months. With 15,0 p/kg rubber R.S.S. 1 is quoted 25 p.c. above the level of mid-April. The main reasons for this have been: cyclical increase of demand in the USA, the speculation that China is buying up rubber which the Malaysian Government took off the market, and additional purchases before the dockers strike in Great Britain.

In spite of the remarkable price increase it remains to be asked whether the lasting depression in the rubber market may be regarded as finished. After all, even the present price is not yet much above the level

of November 1967 — the lowest one for years. Principally the over-supply in the rubber market has hardly been removed so far.

According to the most recent estimates by the International Rubber Study Group, world production and consumption of rubber will also counterbalance each other on the level of 3.18 mn tons in 1972. Therefore once again as in 1971 the pressure on prices due to inflated stocks in the producing countries cannot be reduced. Furthermore a change in the trend in favour of the producers is rendered difficult by the US stockpile deliveries. They were only reduced from 6,000 tons to 4,000

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