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## Trends in Britain's eastern trade

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high price-supports are reduced. But to delay adjustment often increases its cost. There is a need to inform the farm population of government intentions whilst at the same time assuring adequate adjustment measures.

Adoption of this approach to the development of agricultural trade necessitates a means of monitoring progress. For this the concept of "montant de soutien" has much appeal. The level of farm-support afforded by policies raising domestic prices and lowering direct input costs should be measured against a reference price. This price should broadly correspond to the level which might obtain in the absence of trade distorting policies. The reference price would be changed occasionally if and when it became unrealistic.

Average levels of support with respect to the reference price would be bound by an upper limit, as in the case with duties (including those on many agricultural products) at present under the GATT. These levels would then be subject to negotiation as with industrial tariffs. Countries would be free to use whatever means they wish,

subject to the prescriptions of the GATT, to maintain these levels of support. Discussions between countries would be initiated by allegations of an increase in the "montant de soutien". Self-sufficiency ratios, by contrast, have little value as indicators of the desirable level of trade.

#### Principle of Reciprocal Advantage

Negotiations on the reduction of the level of support must rest on the principle of reciprocal advantages. No country or group of countries should be required to act unilaterally, though they might wish to do so for domestic reasons. Offsetting advantages may of course be in the market for other commodities both in the farm and non-farm sectors. Export subsidies would also be limited to the difference between the domestic price and the reference price. Support reductions might concentrate initially on the main problem commodities, reducing the "peaks" in support levels, removing any "water" in import-levis indicated by protection unnecessary to maintain the domestic price, and removing quota restrictions.

## Trends in Britain's Eastern Trade

by Bernd Kunze, Hamburg \*

**Although Britain's trade exchanges with the Comecon-states in 1971 amounted to no more than 3.17 p.c. of its total foreign trade, high growth rates have nevertheless been achieved in recent years.**

The British business community is still not very optimistic about trading prospects with the East, pointing to the fact that trade exchanges with all the Comecon-states in 1971 amounted to only 3.17 p.c. of Britain's total foreign trade, with imports from these countries representing 3.55 p.c. of total imports and exports 2.75 p.c. of total exports. (The corresponding figures for 1970 were: 3.64 p.c.; 4.03 p.c.; 3.20 p.c.). Moreover, the other West European states — and the Federal Republic of Germany, France and Italy in particular — were able to export more to the Comecon-countries.

And yet there are grounds for cautious optimism in view of the high growth rates that have been achieved in Britain's trade with Eastern Europe since the early sixties. From 1960 until 1963 trade showed an upward trend. Then, in 1964, total trade with these countries receded by 3.1 p.c. with exports declining by 19.2 p.c. But from then on-

wards — from 1965 until 1971 — trade exchanges with the Comecon-states showed a growth rate of roughly 55 p.c. (imports 36 p.c.; exports about 183 p.c.). During the period from 1965 to 1970 the average annual growth rate was 8.7 p.c. which was, however, followed by a 3.3 p.c. decline in 1971 (cf. Table I).

Since 1960 a slight shift has taken place in the regional structure of the British trade with the East. While the share of the developed East European states registered a relative decline, the South-Eastern states increased their trade with Britain. As for the trade exchanges with the Chinese Peoples' Republic, they immediately after the end of the cultural revolution had begun to revive, to subsequently show a downward trend.<sup>1)</sup>

<sup>1</sup> For details see B. Kunze, "Die Wirtschaftsbeziehungen zwischen der VR China und den westlichen Industriestaaten" (Trade relations between the Chinese Peoples' Republic and the Western industrial states); study undertaken for the German CEPES-Group by the HWWA-Institut für Wirtschaftsforschung (The Hamburg-Institute for International Economics), page 98 et seqq. (To be published short by "Europa Verlag".)

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## FOREIGN TRADE

As in the case of the EEC-member states,<sup>2</sup> British exports to Eastern Europe consist to the extent of about 90 p.c. of industrial products (products listed in the groups 5 to 8 of the SITC (Standard International Trade Classification) list. Only about 10 p.c. are accounted for by food and beverages, fuel and raw materials — "primary products", listed in groups 0 to 4 of the SITC-scheme. This export structure clearly illustrates that the countries practising state trading regard imports from Great Britain—and indeed from all other Western industrial states—only from the point of view of whether such imports are needed to develop and intensify the industrialisation of their own national economies.

In the case of the Federal Republic of Germany, imports from the Comecon-states consisted of 60 to 70 p.c. of primary products; in the case of France, primary products accounted for some 60 to 80 p.c. and in the case of Italy for 85 to 90 p.c.

<sup>2</sup> cf. K. Bolz and B. Kunze, "Wirtschaftsbeziehungen zwischen Ost und West — Handel und Kooperation" (Trade Relations between East and West — Trade and Cooperation) — a Study undertaken for the German CEPES-Group by the HWWA-Institut für Wirtschaftsforschung (The Hamburg Institute for International Economics). Tables 7 and 8 on pages XI et seqq. (to be published shortly by "Europa Verlag").

By contrast, Britain's position is very much more favourable, with primary products representing no more than 40 to 50 p.c. of its total imports. Generally speaking, it is evident that British trading policy has been restructured in such a manner as to enable state-trading countries to export more industrial goods to the United Kingdom. While Great Britain is importing from the East increasing quantities of semi-finished and finished products — in the case of the German Democratic Republic also chemicals — its imports of raw materials, foodstuffs and beverages as well as of live animals has been steadily decreasing. The composition of imports varies of course from country to country. Polish exports to Great Britain still consist of just under 70 p.c. of raw materials and food, which makes Poland the least favoured of the state-trading countries. At the other end of the scale is the German Democratic Republic with no more than about 10 p.c. of its exports to the UK being raw materials. (cf. Table II).

This favourable trend as regards the level and the structure of the trade exchanges between Great Britain and the states of Eastern Europe is due to

**Table I**  
**Great Britain's Foreign Trade with the Comecon-states<sup>1</sup> and the Chinese Peoples' Republic (1960–1971)**  
(In mn US-\$)<sup>2</sup>

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971 <sup>3</sup>
<b>Exports</b>												
USSR	103.8	121.2	117.4	155.1	106.3	127.3	139.2	174.4	245.0	231.4	245.2	213.1
German Democratic Republic	19.8	23.0	20.1	19.2	14.1	22.6	44.5	37.6	28.0	29.0	40.6	41.5
Poland	40.7	62.9	90.9	77.3	67.0	68.3	98.3	133.1	105.3	129.9	143.3	154.3
Czechoslovakia	21.6	28.2	36.2	32.1	35.1	38.0	49.5	38.2	41.6	42.2	49.0	47.5
Hungary	12.1	15.9	19.0	20.5	24.0	21.2	28.3	33.4	29.9	30.6	45.6	49.9
Roumania	8.5	37.9	23.5	32.8	22.8	26.8	28.9	26.9	74.5	68.7	69.8	74.9
Bulgaria	7.5	5.0	3.4	5.9	7.7	10.7	20.6	17.0	9.6	11.8	26.6	24.7
<b>Total</b>	<b>214.0</b>	<b>294.1</b>	<b>310.5</b>	<b>342.9</b>	<b>277.0</b>	<b>312.9</b>	<b>409.3</b>	<b>460.6</b>	<b>533.9</b>	<b>543.6</b>	<b>620.1</b>	<b>605.9</b>
Chinese Peoples' Republic	88.0	35.9	23.4	36.9	49.6	69.6	89.3	105.8	68.4	124.3	107.0	69.0
<b>Imports</b>												
USSR	209.8	238.3	235.5	254.7	252.9	333.0	351.8	338.5	379.4	473.1	528.1	492.5
German Democratic Republic	17.6	18.7	18.5	21.1	29.0	33.6	37.9	33.5	42.2	35.0	38.6	47.0
Poland	101.0	103.4	107.8	112.5	134.8	135.8	150.3	154.8	145.2	136.8	151.3	143.8
Czechoslovakia	31.5	38.0	37.0	45.7	47.3	48.7	54.7	56.4	55.5	51.6	54.7	62.4
Hungary	12.1	11.9	13.4	16.2	20.6	19.0	20.5	26.5	24.0	22.5	25.6	22.6
Roumania	11.1	17.0	19.8	20.8	25.0	31.4	42.5	71.3	62.1	59.9	55.7	50.9
Bulgaria	6.3	9.1	9.3	10.2	12.0	15.1	17.3	17.2	17.9	17.6	19.9	19.7
<b>Total</b>	<b>389.4</b>	<b>436.4</b>	<b>441.3</b>	<b>418.2</b>	<b>512.6</b>	<b>616.6</b>	<b>675.0</b>	<b>698.2</b>	<b>726.3</b>	<b>796.5</b>	<b>873.9</b>	<b>838.9</b>
Chinese Peoples' Republic	69.6	86.4	64.8	51.8	69.0	83.2	94.7	81.6	82.3	90.5	80.5	77.1
<b>Balance</b>												
<b>Total</b>	<b>- 145.4</b>	<b>- 142.3</b>	<b>- 130.8</b>	<b>- 138.3</b>	<b>- 244.6</b>	<b>- 303.7</b>	<b>- 265.6</b>	<b>- 237.6</b>	<b>- 192.4</b>	<b>- 252.9</b>	<b>- 252.9</b>	<b>- 233.0</b>
Chinese Peoples' Republic	+ 18.4	- 50.5	- 41.4	- 14.9	- 19.4	- 13.6	- 5.4	+ 24.2	- 13.9	+ 34.8	+ 27.5	- 8.1

<sup>1</sup> without Mongolian Peoples' Republic and Cuba; <sup>2</sup> imports: cif; exports: fob; <sup>3</sup> calculated on the basis of 2.4 US-\$ to the £ sterling. Sources: OECD Foreign Trade, Series C, Imports & Exports (1960–1969); European Free Trade Zone (ed.): EFTA 1970; Annual Statement of the Overseas Trade of the United Kingdom, vol. IV (1971); Far Eastern Economic Review (ed.): "China Trade Report" (1970, 1971).

persistent efforts on the part of the British Government and the British business community. Measures have been taken to liberalise imports and make credits more easily available. Furthermore, government representatives have been sent on good-will tours, and numerous fairs and exhibitions have been held – some of them with considerable financial support from the Board of

The British *export* controls are being exercised in accordance with the *COCOM*-regulations which forbid the export of strategic goods to socialist states. Ever since 1954 the British Government has been urging the removal of these barriers, and it is in fact largely due to these efforts that the international list of prohibited exports has already been greatly reduced from the 420 items that figured originally on the embargo list to 150, and further attempts are being made with a view to lifting the embargo on yet more categories of goods.

**Table II**  
**The Structure of Great Britain's Trade with the Comecon-states<sup>1</sup> and the Chinese Peoples' Republic (1965, 1969–1971)**

(Percentage shares of total imports and exports respectively)

Countries/ years	SITC – Commodity groups <sup>2</sup>				
	0–4		5–8		
	Exports		Imports		
USSR	1965	9.9	88.7	60.5	39.5
	1969	7.3	91.8	43.7	56.3
	1970	9.4	89.6	37.5	62.5
	1971	11.5	87.4	38.9	60.9
GDR	1965	8.0	89.8	15.2	84.5
	1969	6.1	93.0	23.7	76.2
	1970	8.2	91.0	17.4	82.3
	1971	7.5	91.9	10.2	89.8
Poland	1965	15.5	76.4	63.4	16.4
	1969	5.8	90.3	78.2	21.2
	1970	6.4	88.4	73.1	26.2
	1971	8.7	86.8	67.1	32.8
Czechoslovakia	1965	15.8	83.3	38.4	60.8
	1969	8.7	90.2	29.9	69.2
	1970	8.8	89.9	25.0	74.1
	1971	8.1	90.9	27.4	72.2
Hungary	1965	11.3	86.3	43.2	55.8
	1969	8.3	90.2	46.2	53.3
	1970	13.1	85.5	55.0	44.4
	1971	7.7	91.3	38.7	61.3
Roumania	1965	9.7	88.8	72.6	28.0
	1969	12.9	86.9	55.4	44.6
	1970	16.0	83.6	46.4	53.5
	1971	8.1	91.3	40.1	59.9
Bulgaria	1965	41.1	58.9	46.4	52.3
	1969	8.5	90.8	48.6	51.3
	1970	4.9	94.6	63.4	36.4
	1971	7.8	92.2	50.0	49.5
China	1965	0.3	95.7	71.5	28.4
	1969	7.9	92.9	57.7	42.2
	1970	4.2	95.6	52.8	47.1
	1971	14.5	85.1	54.0	45.1
Total	1965	14.3	86.4	62.3	37.4
	1969	7.9	90.8	49.8	50.0
	1970	8.7	89.6	44.6	55.2
	1971	11.0	88.4	42.6	57.1

<sup>1</sup> excluding Mongolian People's Republic and Cuba;

<sup>2</sup> SITC – Commodity Groups: 0–4 = Food and beverages as well as raw materials and fuels, 5–8 = industrial products, group 9 = unspecified goods (not mentioned).

Sources: Author's own calculations based on OECD, Foreign Trade, Series C. Imports and Exports (1965, 1969). Overseas Trade Statistics of the United Kingdom (1970, 71).

Trade<sup>3</sup> (now renamed Department of Trade and Industry). Besides, long-term agreements have been concluded with the aim of stabilising trade relations.

<sup>3</sup> For further details see "Nachrichten für Außenhandel" (Foreign Trade News), Frankfurt-on-Main, No. 114 of 16. 5. 1968.

The authority concerned with issuing licences for the *import* of goods into Great Britain is the Department of Trade and Industry. Before 1964 about 90 p.c. of British imports from the USSR and roughly 50 p.c. from the other European state-trading countries required a general licence. In 1964, however, Britain was the first among the Western countries to offer the states of Eastern Europe a far-reaching liberalisation, abolishing the greater part of the quota restrictions on imports of finished products and relaxing the regulations in respect of goods subject to individual licences. Since 1964 imports of goods figuring on this list are subject only to quota restrictions, while all other goods may be imported freely either under general licenses or so-called "open individual licences" which in practice amounts to no more than that the Government retains some sort of general control over imports. Only a very small part of Britain's total imports still require individual licences. As a result of successive liberalisation measures – particularly in the years 1966, 1969, 1970, and the most recent one which took effect on January 1, 1972 – less than 5 p.c. of the imports from the European states belonging to Eastern Europe are still subject to quota restrictions. Thus it is fair to say that Britain has become the most liberal of all the Western European states as far as foreign trade with Eastern Europe is concerned.

### Credit Policy

In its credit policy, too, the British Government has shown itself more liberal towards Eastern Europe than most of the other Western industrial states. Great Britain is member of the "Union d'Assureurs des Crédits Internationaux" (Berne Union) and as such should not grant to any state of Eastern Europe credits running for more than five years. In fact, however, this rule has been ignored ever since 1961. From then onwards, the Export Credit Guarantee Department, operating under the general direction of the then Board of Trade, has been providing cover for the financing of exports to Eastern states. Some of these credits for which cover was granted were for terms

of up to 17 years and carried interest rates at normal market level. Nowadays as far as the granting of export credits is concerned, Eastern and Western countries are treated exactly alike in Britain. In addition, block credits tied to specific orders and financing credits have been introduced into business with the East.

**Table III**  
**British Credits to East European States,**  
**Running for More than Five Years (1959–1970)**

Importing country	Cummulative amount (in 1000 units of account)	Number of contracts	Average currency (in years)	Long-term credits/ Total export volume (in p.c.)
USSR	376,446	25	8.00	6.9
Poland	36,079	5	7.90	0.7
Czechoslovakia	16,134	2	8.50	0.3
Hungary	49,036	4	8.50	0.9
Roumania	117,647	7	7.85	2.1
Bulgaria	16,106	1	8.00	0.3
<b>Total</b>	<b>613,040</b>	<b>44</b>	<b>8.03</b>	<b>11.2</b>

Source: Working document of the EEC-Commission XI/128/71 – D of 16. 9. 1971 (unpublished manuscript)

Britain's entry into the EEC is bound to have a great effect on its trade with the states of Eastern Europe. After Britain has become integrated in the Common Market, the state-trading countries will be obliged to offer Britain goods that are not only wanted but are also not available in the other EEC-member states or at least not in sufficient quantities or on conditions the Eastern countries can at least match. Above all in the agrarian sector the state-trading countries will presumably have to overcome trade barriers, for by July 1, 1977, Britain will have adopted the agricultural market system of EEC. This means it will no longer be able freely to admit agricultural produce from abroad, protecting, as at present, its own farmers' standard of living by direct subsidies. These farmers, incidentally, provide only a relatively small share of Britain's total food requirements, whereas the EEC is by comparison much more self-sufficient as far as food is concerned. This is why the Common Market has a system of fixed import prices for farm produce – a system which by price adjustment levies raises world market prices to the EEC level. Moreover, Britain has certain responsibilities towards some Commonwealth countries which, being primarily food producing countries, will be in a position to fill any possible gaps in Britain's food supplies.

Accordingly, it will be primarily Poland that will be affected by Britain's entry into the Common Market, for in 1970 Polish total exports to Britain were made up to about 20 p.c. of bacon, about 9 p.c. of

meat and 6 p.c. of butter. Polish experts expect their country's annual exports to Britain to decline by some £ 20 mill. Roumania, too, will have to reckon with some reduction in its exports to Britain in view of the fact that in 1970 its exports of Maize accounted for about 12 p.c. and those of sunflower oil for roughly 6 p.c. of its total exports. Hungary, for its part, will in future have to do without its wheat exports to Britain which in 1970 represented about 20 p.c. of total exports as well as without the exports of ham and bacon which accounted for 5.8 p.c. of its total trade with Britain. The German Democratic Republic, Czechoslovakia and possibly also the Soviet Union, on the other hand, should be less severely hit by Britain's entry into the Common Market, though they may have to face keener competition on the markets they have hitherto been supplying.

Not only are British imports from the socialist states likely to decline; British exports to these countries, too, may be expected to stagnate, if not actually decrease, at least during the transitional period until the process of integration into the Common Market has been completed. For the Eastern Socialist states, finding their exports to Britain less lucrative in terms of foreign exchange, may well for their part decide to place fewer orders on the British markets. This in turn may cause British firms to concentrate their export activities primarily on the markets of Western Europe.

#### **Entry into the Common Market**

Britain's integration into the Common Market is unlikely to bring about any change in the EEC's *political* attitude towards the East, for the British Government is by and large in agreement with the line pursued by the Common Market countries. Nor should Britain's entry cause any serious problems of *economic policy*. For, firstly, Britain's long-term trade agreements with East European states expire on the same date as the external trade policy of the European Economic Community becomes that of Britain too (1.1.75), and, secondly, Britain's policy as regards imports from the East being in any case more liberal than that of the other member countries of the EEC, there is no need for any special arrangements to cover the transitional period. It is conceivable, however, that some of the existing EEC regulations may be modified following Britain's entry such as for instance the regulations concerned with credit policy and those dealing with trade exchanges between the Federal Republic of Germany and the German Democratic Republic. For the time being, however, it is impossible to predict how Britain's entry will affect the Community's future trade with the East.