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Great Britain: In a state of confusion

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COMMENTS

EC-USA

World Trade Crisis in Sight?

The past year which President Nixon proclaimed to be the "Year of Europe" has not led to the desired new order and intensification of American-European relations. Instead, 1973 has shown up new conflicts between the Atlantic partners in the political and military sphere. Their economic relations, in comparison, have not so far been greatly affected by the cooling of their relationship.

Even this, however, may now change fundamentally. The enlargement of the EC by the accession of the three new members, Great Britain, Ireland and Denmark, has caused disadvantages to the trade of the USA and 14 other countries for which they are to be compensated by unilateral tariff concessions of the EC. What the EC has so far offered is however considered absolutely inadequate by the Americans who will in future have to compete in the markets of the three new EC members with duty-free imports from other Community countries and fear that their agricultural and industrial exports will decline substantially. The EC on its side points to the stimulating effect which the Common Market has had on trade as a whole; this would presumably continue in the enlarged Community so that there was less justification for offset claims.

If a mutually acceptable settlement cannot be found for this issue, the climate at the coming multilateral GATT talks will suffer. They may indeed end in failure. The imposition of retaliatory tariffs by the USA cannot be ruled out altogether. The negotiating parties should always bear in mind the dangers to the further development of world trade as a whole. All would suffer if they materialise.

ch.

EC Policy

Lacking Solidarity

Already a year after the extension of the European Community the forecasts of those holding a sceptical view on the entrance seem to come true. The EC is experiencing one of its most serious crises. The process of integration is stagnating, and the EC is marked by an aggravating lack in solidarity of its member states.

This situation, however, is not solely attributable to the extension of the EC but is a consequence of international development and the level of integration reached hitherto. Any further advance in the process of integration demands of the member states to make political concessions which can no longer be of a merely formal nature. Of late, they

are therefore increasingly trying to do political "barter business". A method which, to that extent, has so far been practised almost exclusively by France, although not always to the benefit of the Community. Should it in future become an established component of European politics to form "magic triangles or polygons" aimed at achieving simultaneous progress in all fields — as at present in the monetary, energy and regional policies — it would then appear likely that European integration continues to stagnate for a long time.

If the Community wants to avoid such development, it is bound to fix political priorities, i.e. it must prepare a ranking scale of targets and measures which, in a given situation, are the most important for its existence and further development. Such procedure, no doubt, calls for a maximum amount of solidarity and confidence among the partner states. Without these prerequisites the European integration will never materialize, and the Community will externally and internally continue to lose credibility and political importance.

ge.

Great Britain

In a State of Confusion

The long and embittered confrontation between the miners and the Government reached its most critical phase on January 24, when the Miners' Union Executive Council decided to replace the present stop of overtime work by a full strike. The final decision depends on the miners' vote on January 31 and February 1, but there seems to be little doubt about the outcome. Although the Government offered the miners a wage increase of 16.5 p.c., the most generous one possible in Stage Three, the miners' exasperation is quite understandable. For, between 1968 and mid-1972 in spite of all wage increases the British workers' real purchasing power increased by only 8 p.c., much less than in the Federal Republic, France and the Netherlands.

Nevertheless the sudden change in the situation is quite surprising. Only a few days ago things seemed to brighten up. Then the energy crisis improved suddenly. Lord Carrington in charge of the new Ministry for Energy announced on January 17, that provided the miners would not go on strike, the economy measures would be relieved, the steel works would get all the electrical power they need and the three day week would be replaced by a four or even five day week. A decision proving the Government's sound pragmatism, but in view of election it seems to be a mistake.

When the Government introduced the three day week, the public was shocked and inclined to blame the miners and the engine drivers. Every-

body speculated on election and according to the polls undertaken by the Opinion Research Center (ORC) Mr Heath had a good chance of winning. Now, the latest poll of ORC, published on January 24, indicated a striking swing of public opinion, and Mr Wilson would, at the moment at least, have a good chance. The poll did not ask for the reasons of this change, but they seem to be quite obvious. The three day week is widely regarded to be a bluff meant to bring the miners to heel. Moreover, the electoral contest cannot be reduced any more to the question: who governs the country, the trade unions or the Government? This trumpcard has been taken away from Mr Heath by the smart intervention of TUC under its very able new Secretary General Murray who succeeded in convincing the public of the seriousness of TUC's promises.

Profiting from this development is presently at least Mr Wilson. But considering the abrupt fluctuations of the electorate's favour there is only one safe guess: this great nation, which is at its very best in times of darkness, will also this time manage the situation. hg.

Textile Agreement

A Difficult Accord

The new World Textile Agreement came into force on January 1 after hard negotiations under the chairmanship of GATT's Director General, O. Lang. It takes the place of the Cotton Textile Agreement of 1962, applies to more or less all textiles and remains in force for four years. Article 1 defines the aim of the agreement as the orderly and equitable expansion of trade, the removal of trade obstacles and progressive liberalisation without disruptive effects on the market. To ensure these objectives, the agreement prohibits new quantitative obstacles to trade in textiles though it allows for exceptions. New restrictions have to be registered, and all existing quantitative trade obstacles are likewise subject to notification. To be notified of these is an "organe de surveillance", a control institution which consists of a chairman and eight other members. The establishment of this control institution is a positive innovation compared with the old Cotton Agreement.

New restrictions may in future be permitted whenever the market is suffering from disruption. Not without reason the term "market disruption" has been a matter of contention during the negotiations. According to the text of the Agreement, a market disruption will be assumed to exist when there is a real danger of a national producer being seriously handicapped. The existence of such a handicap must be capable of proof by reference to the sales, market share, profits, exports, volume

of disruptive imports, productivity, capacity utilization or similar data.

It does not require much foresight to see that such a vague definition of the term "market disruption" can lead to complicated situations and many a dispute concerning the implementation of the agreement. In this respect the agreement shows clearly the characteristics of a compromise. The conflicting interests of the manufacturers in the traditional industrial states and the young textile industries of the LDCs had to be bridged. It is still to be hoped that the industrial countries will have second thoughts about their rather protectionist stance and treat the textile trade as an avenue for effective development aid. iwe.

Japan

High Investments Abroad

The foreign investments of Japanese firms are expected to rise to a total of about US \$ 42.5 bn by 1980. This forecast by the Industrial Bank of Japan is based on a recent analysis of the trend of Japanese investment activity abroad. With Japan's foreign investments currently estimated at about \$ 9-10 bn, the Japanese investments abroad will reach very high growth rates compared with other countries if this forecast is accurate.

The predicted growth rate is not really so very surprising considering that Japan — as the Federal Republic of Germany likewise — in relation to its economic strength is still lagging behind the USA and Great Britain in regard to foreign investments. Of interest, however, is the spread of Japan's future investments over the various regions and industries. The Industrial Bank expects over 50 p.c. of all investments to be concentrated by 1980 in LDCs of South-East Asia, the Middle East, Latin America and Africa and in the sector of mining and oil and in primary industries based on them.

Japan's foreign investments will thus differ structurally even more than at present from the direct investments of comparable industrial countries like the USA, Great Britain, the Federal Republic of Germany and France. The Japanese are already relatively strongly represented in the LDCs and the sectors mentioned by the Industrial Bank. The principal reasons for this, apart from the worsening pollution and scarcity of labour in Japan, is the lack of indigenous raw material sources. It has caused Japan to effect investments abroad, and more particularly in developing countries, in order to make sure of supplies of raw materials. This tendency is likely to receive a further impetus from the new awareness in Japan of the country's total dependence for oil on the Arab states. It will compel Japan to make fresh efforts and new investments, and these will not be confined to oil or to the Arab countries. ogm.