

A PRESS RELEASE AND SPEECH

from **HUGH DYKES, M.P.**E.C. TRADE WITH THE USA AND THE WORLD

The Community's common external trade tariff means that it is seen as a single trading partner by other world trading powers. By volume of trade, it is well ahead of its partners. Averaging imports and exports, the Community has 19% of world trade, compared to 14% for the United States and 8% for Japan. International trade is a much larger share of GDP for the Community and Japan than for the United States. This fact underlines the Community's interest in maintaining an open world trading system. It also demonstrates the need for a sharpening of the competitive edge of the European economy. The Community imports almost half of its energy needs and about three quarters of other vital raw materials. To maintain its present standard of living, it must therefore export finished goods.

In US dollar terms the value of world trade increased 16 times between 1958 and 1982. The increase by volume - which leaves out the effects of inflation and monetary fluctuations but also ignores real increases in the value of increasingly elaborate goods - is considerably less, but still substantial. Taking 1975 as the base figures of 100, world trade by volume stood at only 30 in 1958 and had grown to 130 by 1982. Two distinct periods can be identified here. Between 1958 and 1972 the volume of world trade triples in 14 years. In the next 10 years, it increased only by half and, due to the recession, actually shrank slightly in 1981 and 1982. Community trade with the rest of the world followed more or less the same pattern. European imports and exports increased 13 times in value between 1958 and 1982, slightly below the rate for world trade as a whole. During this period, however,

the shares in world trade of the Community (about 23% in 1958) and the United States have been eroded by the growing economic power of Japan, the oil-producing countries and newly industrialized countries in Asia. The strength of the dollar has meant a fall in dollar terms in the value of Community external trade in 1981 and 1982. In terms of ECUs it has continued to rise.

The Community is the principal trading partner of the United States (17% of US imports and 23% of exports) and many other countries. In Western Europe and in Africa, the Community often accounts for over half of the total trade of its partners. All in all, over half of Community trade takes place with other industrialized, free economy countries and about two fifths with the Third World. The Americans here today will hence realise how keen the E.C. authorities are to maintain free trade and avoid import controls.

And they worry - we worry - about the attitude of the U.S. authorities.

The relentless rise of the U.S. dollar over the past three years provides a key example of how a European perspective might have produced better economic policies in several European countries.

The Europeans' attempts to defend their currencies against the rising dollar have been among the biggest factors restraining domestic policies and closing off options for faster economic recovery. In countries like the UK and Germany in particular, where fiscal stimulus was ruled out for political or long-term budgetary reasons, the hopes that reductions in budget deficits and inflation would promote growth through dramatic reductions in interest rates were disappointed. In part, at least, this was because governments and central banks chose to maintain tight monetary conditions.

The alternative of allowing a devaluation would make a country's import prices rise and aggravate its domestic

inflation. Even if it was linked into a semi-fixed exchange rate against its main trading partners, as in E.M.S, a fall in the whole system against the dollar would raise the prices of oil and other raw materials, which are denominated in dollars.

These concerns are certainly understandable for a single European country. But they are much less persuasive for Europe as a whole. As already mentioned, it is Europe, not the U.S., which dominates world trade movements. In 1980, the EEC accounted for 24 per cent of total worldwide imports (excluding trade within the Community). The U.S. bought only 15 per cent of the rest of the world's goods (and Japan 9 per cent).

What this means is that market conditions in Europe should actually have a bigger impact on international import prices than conditions in the U.S. Even though many prices may be set in dollars, it will generally be supply and demand in the world market as a whole which these prices ultimately reflect.

Over the past three years, this is just what has been happening to many European import prices. Britain's experience is instructive: Although the pound fell by nearly 40 per cent against the dollar, it declined by only 6 per cent against the European currencies - and fears of rapid inflation fuelled by the dollar-based import prices have not materialised.

The fall in the price of oil earlier this year could have provided the clinching evidence against the "dollar illusion" that dollar-denominated prices were somehow sacrosanct and that domestic sacrifices were worthwhile to limit the rise of the dollar.

The official price of oil fell from \$34 a barrel, where it stabilised in October 1981, to \$29 in March this year - a decline of 17.2 per cent. In the same period the dollar rose against the ECU (a representative "cocktail" of all the EEC's currencies) by 17.5 per cent. Thus the fall in the dollar price of oil exactly offset the dollar's rise against the ECU.

European governments may never be persuaded by evidence of this kind to recognise both their interdependence and their potential ability to provide the world with economic leadership. So far there is no sign, for instance, of a European initiative to offer Opec oil purchase contracts denominated in ECUs instead of dollars.

What can be said with confidence, however, is that Europe is still, despite its long run problems, the greatest single influence on the international trading economy - so a healthy and lasting world economic recovery will simply be impossible unless Europe joins in more convincingly soon. Meanwhile, the ECU is gradually increasing its scope and meaning, the E.M.S. is getting a solid look about it and the U.K. will presumably join in at sometime soon, I hope.

None of these things will harm America's basic interests.