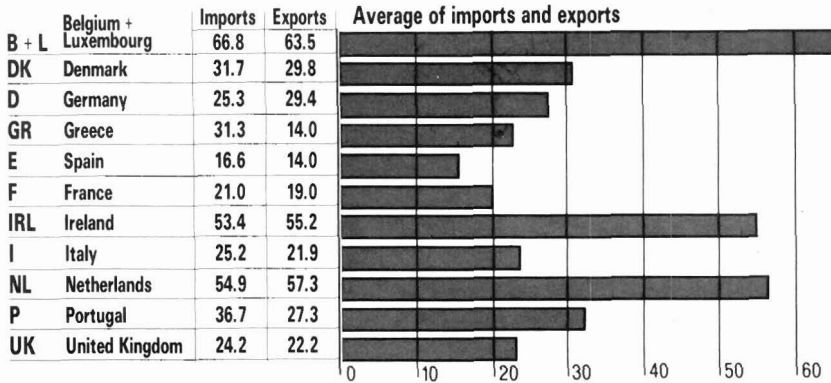


The external trade of the European Community

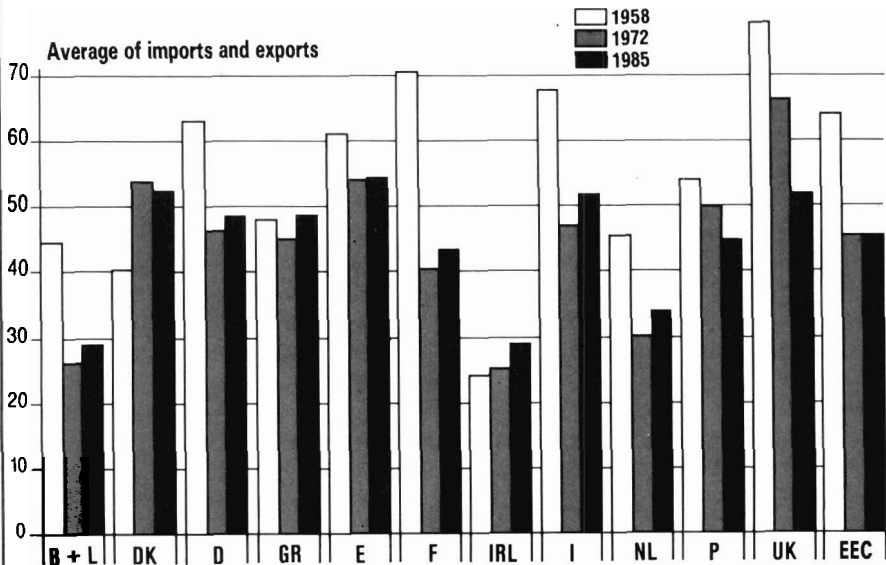


European File

1. Total external trade of Community countries as percentage of GDP (1985, estimated)



2. Percentage share of extra-Community trade in total trade



Imports

1958	44.5	40.0	63.7	46.3	68.3	71.7	31.1	69.8	49.3	46.6	78.2	64.8
1972	27.8	52.3	43.9	44.1	56.8	41.4	29.3	49.0	36.4	49.1	65.9	46.2
1985	30.8	49.3	46.9	51.0	62.1	40.5	27.6	52.6	44.0	53.4	52.3	46.4

Exports

1958	44.6	40.7	62.1	49.1	53.2	69.1	17.6	65.5	41.7	61.0	78.2	62.8
1972	24.2	55.0	49.4	45.9	51.3	39.6	20.6	45.3	24.0	50.7	66.2	44.6
1985	28.8	54.9	49.9	45.9	46.4	46.2	30.0	50.8	23.8	36.2	51.1	44.5

Source: Eurostat.

External trade accounts on average for nearly 27% of the gross domestic product of European Community countries (see Diagram 1). The countries most reliant on trade are the Belgo-Luxembourg Economic Union (where an average of imports and exports comes to 65% of GDP), Ireland and the Netherlands. Even at the other end of the scale, trade as a proportion of GDP is 20% for France and 15% for Spain.¹

In 1985, the present member countries of the Community conducted more than 54% of their trade among themselves, compared with 36% in 1958. Intra-Community trade developed more rapidly than other forms of trade because of the abolition of customs duties and of quantitative restrictions within the European Community. However, as Diagram 2 shows, this progress was achieved in the main between 1958 and 1972. Between 1972 and 1985 the average proportion of the Twelve's trade that has been conducted with non-Community countries has remained stable. What has happened is that the 'Europeanization' of the United Kingdom's external trade, following its entry to the Community in 1973, has been counterbalanced by developments of the opposite kind: these have been on a smaller scale, but have occurred in the trade of nearly all the other Member States. Among the reasons for this stagnation have been the economic crisis, which slowed down the expansion of demand in Europe, and the increased cost of imported oil, which had to be balanced by increased exports, particularly to the oil-producing countries. Another cause, however, has been the survival of numerous barriers to trade among the countries of the Community. The Community has set itself the objective of eliminating these obstacles by 1992, so as to create a truly European internal market on a continental scale, which would help to improve the Community's competitiveness and reduce unemployment.²




Because of its common external trade tariff, the Community is seen as a single trading partner by other world trading powers. In terms of volume of trade it is ahead of all the others: trade with the rest of the world represents a much greater proportion of GDP for the Community and for Japan than for the United States (Diagram 3): averaging imports and exports, the Community has about 18.3% of world trade, the United States 17.5% and Japan 7.5% (Diagram 4). It shows how it is in the Community's interest to maintain an open world trading system, which in turn obliges the Community to make its economic structures more competitive. The European Community imports nearly 45% of its energy needs and about three-quarters of other vital raw materials. To maintain its standard of living, it must therefore export finished goods.

In US dollar terms, the value of world trade increased 17 times between 1958 and 1985 (Diagram 5). In volume terms – which include the effects of inflation and currency fluctuations, but also ignore the real value-added in the production of finished goods – progress has been slower, but still impressive: trade multiplied

¹ This file replaces our No 19/83.

² See especially *European File*, No 8/85, 'The European internal market', and No 4/86, 'An industrial strategy for Europe'.

3. External trade as a percentage of GDP (1985, estimated)

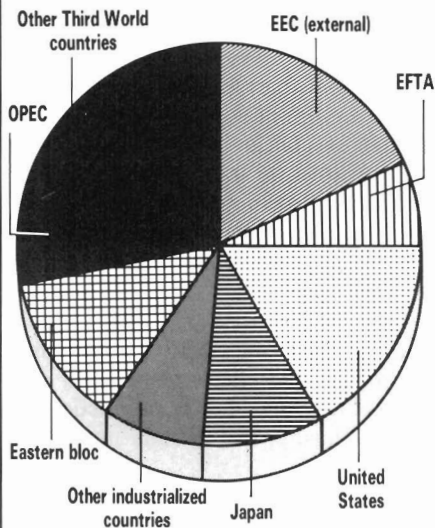
	Imports	Exports	Average of imports and exports
EEC (external) *	12.6	11.7	
United States	9.3	5.8	
Japan	9.8	13.2	

* Not including trade between member countries.

4. Regional spread (percentages) of world trade in 1985

	Imports	Exports
EEC (external)	18.2	18.5
EFTA	6.5	7.0
United States	21.3	13.8
Japan	7.7	11.3
Other industrialized countries	7.5	8.3
Eastern bloc	12.9	12.8
OPEC	7.2	10.1
Other Third World countries	18.7	18.2

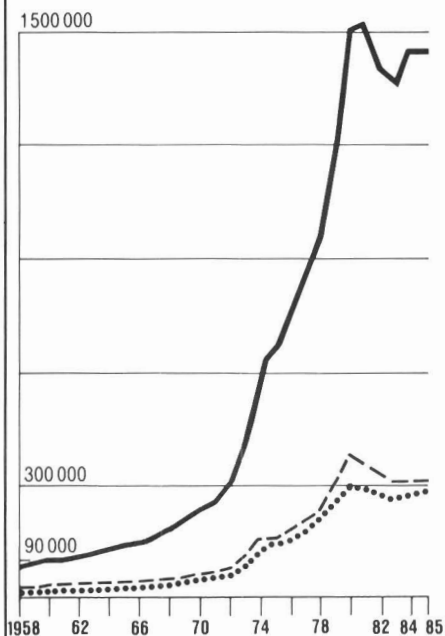
Average of imports and exports



Source: UN.

5. Development of world and Community trade (in millions of dollars)

- World exports*
- - - EEC imports (external)
- EEC exports (external)



* Excluding intra-Community trade and State-trading countries other than the USSR.

Source: UN and Eurostat.

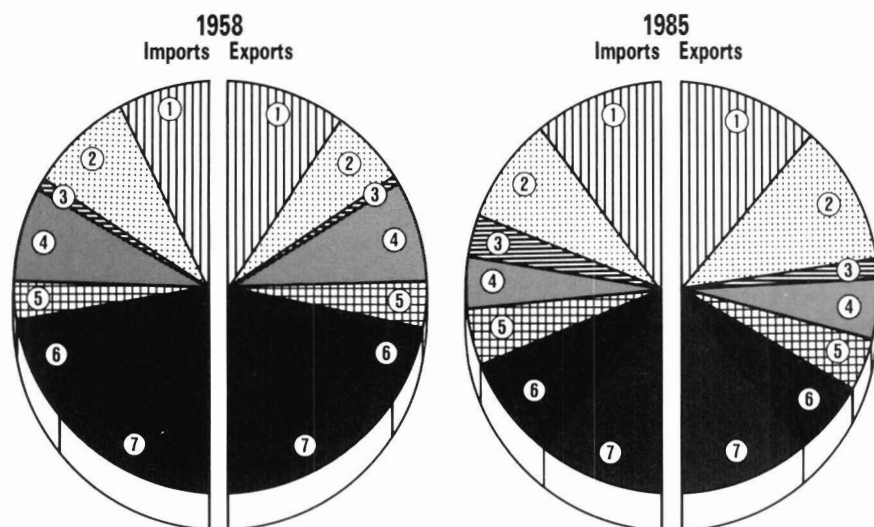
almost fivefold between 1958 and 1984. A distinction must be made between two periods. In the 14 years between 1958 and 1972, world trade tripled in volume. In the following 13 years, trade increased by only a further 60%: because of the economic crisis it was stagnant in volume terms between 1979 and 1983; with the added effect of the rise of the dollar, there was actually a fall in value terms after 1981. Community trade with the rest of the world has followed more or less the same pattern since 1958. Its value in ECU has increased 17 times, in dollars 13 times. The growth has thus been slightly lower than that of total world trade: some of the Community's share of that trade (22% in 1958) has been lost to its competitors.

The Community and its main trading partners

55% of the Community's trade is carried out with the other industrialized free-economy countries and about 36% with the countries of the Third World (Diagram 6). The Community is the principal trading partner of the United States (20% of its imports and 23% of its exports). It accounts for more than half of the trade of some Western European and African countries.

- The Community's major industrialized trading partner is the European Free Trade Association (Norway, Sweden, Finland, Iceland, Austria and Switzerland) which is linked to it by agreements abolishing customs duties on industrial goods. Despite a decline in exports since 1972, these countries' share of total Community trade has increased since 1958.
- The United States is almost as important a trading partner as EFTA. In 1985 it actually took a larger share of Community exports.
- The escalation of imports from Japan contrasts with the stagnation of Community exports to that country. The Member States export to Japan only a third of what they import from there; they supply only 7% of Japan's imports, while they absorb more than 12% of its exports. Moreover, imports from Japan tend to be concentrated in 'sensitive' sectors of the European economy. The Community insists that overall balance be restored to the trading relationship.
- The trade share of other Western industrialized countries is decreasing. It was greater than the US share in 1958 but now represents less than half of it.
- The State-trading countries of the Eastern bloc still have less than 10% of Community trade. Increases since 1958 have been mainly on the import side.
- After a decline between 1958 and 1972, the Third World's share of Community trade stabilized – apart from trade with the OPEC countries, the value of which has fluctuated along with oil prices. Trade with OPEC grew sharply after 1972, to reach 27% of Community imports and 21% of exports in 1980-81. Our table

6. Regional spread of EEC external trade



In percentages	Imports			Exports		
	1958	1972	1985	1958	1972	1985
① EFTA	14.4	18.3	20.2	19.5	25.5	22.4
② United States	17.6	18.8	17.0	12.5	18.9	22.6
③ Japan	1.1	4.4	7.0	1.0	2.5	2.8
④ Other industrialized countries	15.4	11.3	8.0	15.5	12.1	9.8
⑤ Eastern bloc	5.8	7.9	9.5	6.9	8.8	8.4
⑥ + ⑦ Third World	45.5	39.0	38.4	43.6	31.1	34.1
ACP	9.5	7.6	7.2	9.5	6.5	4.8
Mediterranean countries	7.2	8.6	10.9	12.4	11.0	11.7
⑧ OPEC	16.7	18.7	17.8	12.2	8.5	12.8
Asean	2.9	1.7	2.6	2.8	2.0	2.6
Latin America	10.3	7.1	7.4	8.8	7.0	3.9

In millions of ECU	Imports		Exports		Balance	
	1958	1985	1958	1985	1958	1985
EFTA	3 464	81 839	4 241	84 710	+ 777	+ 2 871
United States	4 252	68 934	2 726	85 524	-1 526	+16 590
Japan	258	28 577	211	10 474	- 47	-18 103
Other industrialized countries	3 708	32 437	3 363	37 130	- 345	+ 4 693
Eastern bloc	1 410	38 466	1 504	31 795	+ 94	- 6 671
Third World	10 984	155 929	9 496	128 910	-1 487	-27 019
World total	24 126	405 696	21 762	378 484	-2 364	-27 212
ACP	2 302	29 185	2 067	18 256	- 235	-10 929
Mediterranean countries	1 729	44 301	2 705	44 115	+ 976	- 186
OPEC	4 023	72 208	2 651	48 600	-1 372	-23 608
Asean	708	10 376	602	9 916	- 106	- 460
Latin America	2 483	29 872	1 925	14 627	- 558	-15 245

Source: Eurostat.

shows the relative decline since then, but also a continuing and sizeable deficit in OPEC's favour. Trade with other Third World countries, which was about 30% of the Member States' trade in 1958, has stayed in the 1980s at about the level it had reached in 1972, i.e. 21%.

Within the Third World, it is worth noting how well trade has been kept up with the Mediterranean countries, most of which are linked to the Community by cooperation agreements which allow a number of customs concessions. Since 1972 there has also been a closing of the trade gap with the Asean countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Brunei), which have signed a non-preferential cooperation agreement with the Community.

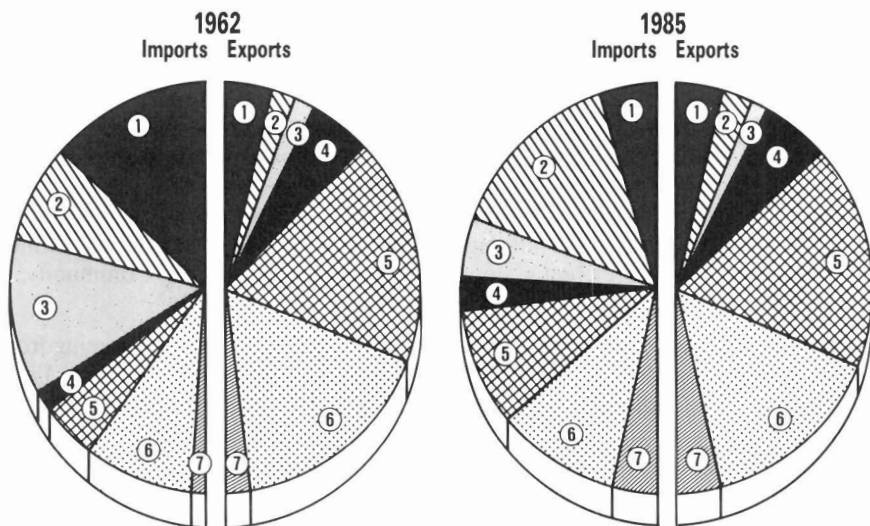
Following the decline during the 1960s in the share of its imports coming from the African, Caribbean and Pacific (ACP) countries, as well as from Latin America, the Community can report a certain stabilization in those imports between 1972 and 1985. On the other hand, the persistent decline in those countries' share of Community exports testifies to the serious economic difficulties that oblige them to limit their purchases from abroad. It will be remembered that the 66 ACP countries are associated with the Community by a wide-ranging cooperation agreement offering many customs concessions. There are also other, non-preferential, agreements with various countries of Latin America and Asia. In addition, all Third World countries have benefited since 1971 from generalized preferences which allow them to export large quantities of industrial goods and processed agricultural produce to Europe, with reduced or zero tariffs.

The end result of all this trade is that the overall deficit in the Community's trade balance increased to more than 27 000 million ECU in 1985.¹ The largest deficits were in trade with OPEC and Japan. Next came Latin America, the ACP countries and the Eastern bloc States. The surplus recorded in trade with the United States is something that has appeared only since 1984 and is linked to high exchange rates for the dollar. Trade with EFTA and with other industrialized countries, on the other hand, has traditionally been in surplus. Until 1984 the same was the case in regard to the Mediterranean countries.

Note that the most recent figures show a net improvement in the external trade balance. The total deficit, which exceeded 41 000 million ECU in 1983 and 1984, was only about 5 000 million for the first half of 1986. The price of this achievement has been a drop in both imports (down 18% on the same period in 1985) and exports (down 10%). The main factors have been the fall of the dollar, lower prices for raw materials – particularly for oil – and the increasing economic difficulties of the Third World.

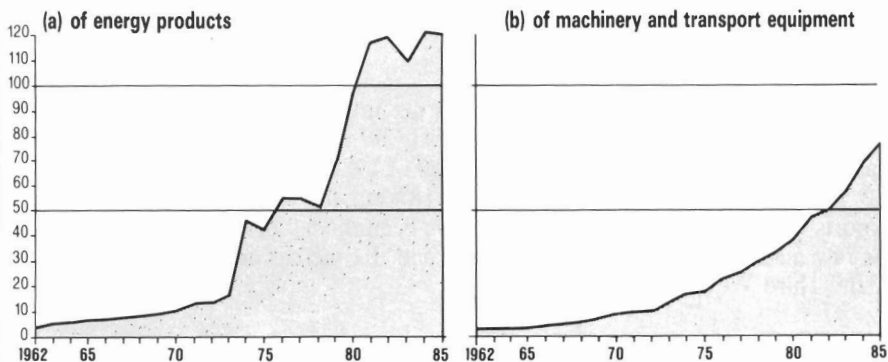
¹ 1 ECU (European currency unit) = about £0.74, Ir. £0.76 or US \$1.06 (at exchange rates current on 1 December 1986).

7. Spread of external trade by product category



	Imports				Exports			
	Millions of ECU		%		Millions of ECU		%	
	1962	1985	1962	1985	1962	1985	1962	1985
① Food, drink, tobacco	8 083	37 824	25.7	9.3	2 290	29 214	8.7	7.7
② Energy	4 954	120 185	15.7	29.6	978	18 575	3.7	4.9
③ Raw materials	8 296	41 623	26.3	10.3	992	8 931	3.8	2.4
④ Chemicals	1 159	22 300	3.7	5.5	2 563	42 077	9.8	11.1
⑤ Machinery, transport equipment	3 062	76 513	9.7	18.9	9 869	138 624	37.6	36.6
⑥ Other manufactured goods	5 324	83 832	16.9	20.7	8 797	119 178	33.5	31.5
⑦ Other	621	23 419	2.0	5.8	764	21 885	2.9	5.8

8. Community imports (in millions of ECU)



Source: Eurostat.

What Europe buys and sells

The structure of the European Community's trade – the predominance of raw materials in imports and, even more, of manufactured goods in exports – underlines its position as the world's second largest industrial power (Diagram 7). Nevertheless, there are two observations to be made:

- On the import side, increases in oil prices have been a heavy burden. Although the share of imported oil in the total energy consumption of the Community was reduced from about 62% to 31% between 1973 and 1985, the value in ECU of imported energy products increased 24 times between 1962 and 1985 (Diagram 8). The share of energy in imports doubled. On the other hand, despite increased prices, the share of other raw materials has been sharply reduced, mainly because of the slowdown of economic activity during the recession. The common agricultural policy has, at the same time, significantly reduced the contribution of food imports to the trade deficit, but the Community remains the world's leading importer of agricultural produce (particularly of tropical foodstuffs and animal feed). Its food trade balance is still in deficit. One other fact is worthy of note: the share of industrial goods in Community imports has grown by half since 1962; that of machinery and transport equipment has doubled.
- Overall, the positive balance of trade in industrial goods does not outweigh the negative balance for agricultural produce, raw materials and, most of all, energy products. Moreover, the growth in industrial imports is evidence of a certain loss of competitiveness on the Community's part and could signal further difficulties to come in international trade. To face these challenges, the Community must strengthen its technological base and reduce its dependence on imported energy and raw materials. A number of initiatives have already been undertaken or proposed by the European Commission with these objectives in mind.

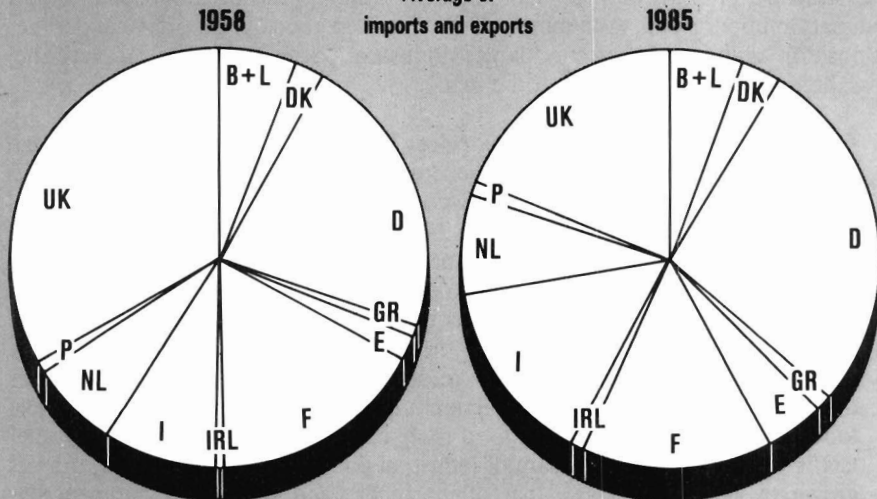
The shares of Member States

The shares of the different Member States in the Community's external trade vary, of course, from sector to sector, according to their natural resources (the United Kingdom and the Netherlands export more energy products than they import) and also according to their degree of economic development, the specialization of their industry and their agricultural advantages. Thus food, drink and tobacco account for over a quarter of all exports from Denmark, Greece and Ireland, compared with 18% of Dutch exports, 15% of French, 12% of Spanish, 10% of Belgian and 5% to 8% of other countries' exports. Two further aspects of national trade patterns should be noted:

- The way the shares of Member States in total extra-Community trade have developed since 1958 is shown in Diagram 9. The Federal Republic of

9. Shares of Member States in EEC external trade (in percentages)

Average of
imports and exports



		B + L	DK	D	GR	E	F	IRL	I	NL	P	UK
Imports	1958	5.8	2.2	19.4	1.1	2.5	16.7	0.7	9.3	7.4	0.9	34.0
	1985	5.6	2.9	24.1	1.7	5.5	14.1	0.9	15.5	9.8	1.3	18.5
Exports	1958	6.3	2.3	25.1	0.5	1.2	16.3	0.3	7.8	6.2	0.8	33.3
	1985	5.4	3.3	31.8	0.7	3.8	15.6	1.1	13.9	5.9	0.7	17.8

10. Trade and balance of Member States (in millions of ECU, 1985)

	Extra-Community trade				All trade	
	Imports	Exports	Balance	Import cover*	Trade balance	Import cover*
B + L	22 877	20 359	- 2 518	89.0	- 3 698	95.0
DK	11 951	12 518	+ 567	104.7	- 1 454	94.0
D	97 620	120 520	+22 900	123.5	+33 036	115.9
GR	6 820	2 731	- 4 089	40.0	- 7 411	44.5
E	22 507	14 242	- 8 265	63.3	- 5 582	84.6
F	57 325	59 176	+ 1 851	103.2	-13 462	90.5
IRL	3 635	4 081	+ 446	112.3	+ 454	103.4
I	62 811	52 535	-10 276	83.6	-15 973	86.6
NL	39 735	22 377	-17 358	56.3	+ 3 939	104.4
P	5 358	2 697	- 2 661	50.3	- 2 585	74.2
UK	75 058	67 250	- 7 808	89.6	-11 865	91.7

* Import cover = exports (fob) as a percentage of imports (cif).

Source: Eurostat.

Germany, with its great industrial strength, accounts for 28% of the total (measured as an average of imports and exports), compared with 22% in 1958. The development of Italy's trade has brought that country to a position just behind France in the table, while the growth of Irish and Spanish exports is even more impressive. The United Kingdom, on the other hand, has seen its share of extra-Community trade diminish by nearly half, partly because of lower economic growth, but also as a result of a reorientation of its trade towards Community countries. Since 1975, sales to their European partners have in fact allowed the British to increase their share of total intra-Community and extra-Community exports.

- The extra-Community trade of Ireland, Denmark, France and (especially) Germany is in surplus. All the other Member States are in deficit in this regard. However, as our last table shows, intra-Community trade restores balance, improving the overall cover rate of those countries with a deficit on extra-Community trade. This effect is most striking in the case of the Netherlands (which benefits from being an exporter of hydrocarbons and from the role of the port of Rotterdam in European trade); it can also be seen in the cases of Portugal, Spain and even of Greece, which has a very low cover rate for its imports.

Δ

The Community has a common external customs tariff and is competent to negotiate international trading rules, to sign trading agreements with third countries, to establish customs procedures, etc. It intends to continue to develop its contractual links with neighbouring countries and with the Third World. It is also intensifying its dialogue with other industrialized trading partners, such as the United States and Japan.¹ Using its powers of initiative, negotiation and management, the European Commission defends the trading interests of the Community, in bilateral relations as well as in major international negotiations. Its fundamental objective is to maintain the highest possible degree of freedom in international trade in order to safeguard the future of a European economy which depends to a great extent on its trade with the rest of the world ■

¹ For more details, see *European File*, No 16/86, 'The role of the European Community in the world'.

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