Community Topics 12

The Common Market: inward or outward looking?

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european community information service

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Contents

'Is the Common Market inward or outward looking?' This question is perhaps the one most frequently put, in other countries, about the six-nation European Community. A variant which we get even from some of the Common Market's best friends is: 'We are all in favour of the Community, but why is it becoming protectionist?'

The answer to both questions is, quite simply, that the Common Market is neither inward looking nor protectionist. I believe the Common Market, in the last few years, has done enough to reduce trade barriers to make its character and intentions quite clear. But since the questions are asked, they need answering in detail. This is what this brief paper sets out to do.

The Community - the world's biggest customer

There are two ways of deciding whether the Common Market is inward or outward looking, liberal or protectionist. The first is to analyze the development of trade between the Common Market and the rest of the world. The other is to examine how the Community's external tariff is taking shape, and to decide whether it is a high tariff compared with the tariffs of other major industrialized countries.

The Common Market is the world's biggest importer. Its imports from non-member countries were valued at $24·6 billion in 1963, compared with imports worth about $17 billion by the United States. The Community's purchases of goods from the rest of the world rose by about 52 per cent between 1958 and 1963, while American and British imports increased by much less – by 28 per cent and 29 per cent respectively.

What about the Community's exports? Between 1958 and 1963 they rose by about 37 per cent. But as imports expanded by 52 per cent in the same period, the Community has been faced with an increasingly large trade deficit with the rest of the world. In 1958 this deficit was very small – some $245 million. In 1963 it reached $3,000 million – a twelve-fold increase in five years.

Allowing for other foreign receipts and expenditures besides those resulting from trade in goods, the Community's balance on current account deteriorated from a large surplus of $3,500 million in 1959 to a small deficit in 1963. In 1964, the deficit is likely to amount to several hundred million dollars.

Naturally this development is causing concern. Highly industrialized countries, such as those of the Common Market, must earn a surplus on current account if they are to provide an increasing amount of aid for the developing countries and if they are to export capital on a long-term basis. Several Community countries must make difficult decisions this year if they are to stop the deterioration in their external financial position. The Community policy on inflation, drafted by the Common Market Commission and adopted in April 1964 by the Council of Ministers, and the decision to work out our medium-term economic policies together, should help us over these difficulties.

Of course, the Community has benefited, and is still benefiting, from a substantial influx of foreign capital. But a large part of this capital consists of short-term investment of a highly volatile character. The direction of such capital flows can change overnight, and it is not very comforting to spend more than your income and to borrow short-term to fill the gap.

The United States and Great Britain

With European-American trade and American fears for its future so much in the limelight in Geneva and elsewhere, it is worth taking a look at the facts of the matter in some detail. In 1963 Community imports from the United States were valued at roughly $5 billion, an increase of no less than 80 per cent over the 1958 figure. Community exports to the United States increased by 54 per cent compared with 1958, but still amounted to only $2·6 billion. As a result, the Common Market's trade deficit with the United States rose from $1·2 billion in 1958 to about $2·5 billion last year. The Community buys twice as much from the United States as it sells there.

American exports to Britain rose between 1958 and 1963 by 34 per cent, while US exports to the EFTA countries as a group rose by 41 per cent.

The Community's imports have increased in even more striking fashion from some other countries, notably Great Britain. Purchases from Britain rose by 105 per cent – from $1,192 million to $2,446 – in five years; while Community exports to Britain during the same period increased by less than 49 per cent – from $1,330 to $1,977. During these same five years, imports from Latin America increased by 35 per cent, while exports to the area rose by only 10 per cent. At the same time, the Community's total imports from developing countries in general rose by 19 per cent, while its exports to them remained stationary.

To avoid any misunderstanding, I want to make it clear that I do not consider these developments as having been damaging to the financial balance of the free world. The increase in the American trade surplus has helped the Western partner in the Atlantic Alliance, at a difficult time, to face its formidable responsibilities for the defence of the free world and has compensated to some extent for a larger outflow of capital. But obviously, for the reasons mentioned above, the European trade deficit cannot be allowed to deteriorate much further, and the Community hopes that the United States will find ways to expand their own imports more rapidly, at the same time as they take steps to check their exports of capital.

A liberal trade policy

What are the reasons for this increase in the Community's imports ? First of all, the Common Market countries have been enjoying a boom for several years past. Prosperity and buying power have been increasing rapidly. The economic unification of Europe has made an important contribution to this prosperity and to the consequent increase in imports.

But, in addition, the Community trade and tariff policy has been liberal. In our trade with other countries with similar economies, quantitative restrictions on industrial goods have been virtually abolished.

Our Common External Tariff, even as it was originally envisaged, represented on average a much lower level of protection than the former national tariffs. Adjustments resulting from compensation to our partners in GATT (the General Agreement on Tariffs and Trade) and from the Dillon Round of tariff negotiations have further reduced the external tariff, so that it is now lower, on average, than both the British and the American tariffs.

Furthermore, in 1960 the Common Market provisionally and unilaterally lowered its tariffs on industrial products by 20 per cent, expecting that the Dillon Round negotiation would make it possible to confirm this reduction. Although the Dillon Round did not achieve all the reductions hoped for, we have kept the reduction in force in expectation of the results of the Kennedy Round negotiations which began officially in May 1964.

There is thus nothing inward-looking or protectionist about the Common Market's record. For the past, the facts speak for themselves; for the future, we have no intention of changing the open, liberal policies we have followed so far and which have given such a sharp stimulus to liberal trade policies and the lowering of trade barriers throughout the world.

The Community in the Kennedy Round

It is inevitable that, from time to time, balance-of-payments problems will emerge in one part or other of the free world. This should not deter us from working relentlessly towards a gradual reduction of the trade barriers that still exist – both tariff and non-tariff.

The Kennedy Round negotiations in GATT present us with the greatest opportunity we have yet had to reduce world trade barriers. The inspiration for the US Trade Expansion Act of 1962, on which the United States' tariff-cutting mandate in these negotiations is founded, derives from the unanimous recognition by the GATT Contracting Parties in November 1961 of the need to adopt new methods for reducing customs duties and, in particular, the linear, or across-the-board, formula already adopted in the Common Market.

Before the 1962 Act, the United States had no possibility of changing the traditional tedious, product-by-product methods of negotiating tariff cuts. The United States deserve tribute for having passed the legislation needed to give their Administration new powers – to cut tariffs by 50 per cent, and even abolish them on some items – which no US Administration had previously possessed. This is a positive and direct result of fruitful confrontation of methods between America and Europe.

The Community does not look upon the Kennedy Round – or any similar effort towards trade liberalization – as a means to give one country or trading bloc an advantage over its competitors. It looks upon it as an opportunity to bring about a better division of labour among all the nations concerned, a more rapid increase in productivity, a faster rise in the standard of living – in both developed and developing countries – and an opportunity to give freer play to the forces of fair competition. These are the most powerful factors in economic progress.

The European Community is fully committed to making the Kennedy Round a success. From the start, the Common Market has supported the principle of major cuts in customs duties and the removal of as many non-tariff barriers as possible.

In full agreement with the United States, Great Britain and other countries, the Community has maintained that the negotiations should aim at complete reciprocity in the concessions which they are called on to make. It is not always easy, however, to work out this principle of reciprocity in practice and it is natural that from time to time, in the course of the discussions, differences of opinion should arise among even the closest partners. These differences should not be exaggerated or dramatized. I have no doubt that within the next year or so we shall reach a full understanding.

The 'disparities' question

One of the difficulties now receiving attention springs from the very different structures of the American, British and Common Market tariffs. This is the so-called "disparities" problem.

The Common Market's industrial tariff consists of low and moderately high duties, with only 23 tariff positions above 25 per cent – and with only six tariff positions above 30 per cent.

If we analyze the American tariff – which has about twice as many positions as the Common Market tariff – we discover that it includes, along with a substantial number of zero and low duties, a great proportion of high duties. The US tariff has 524 positions between 25 and 30 per cent, 386 between 30 and 35 per cent and as many as 427 above 35 per cent. Some go above 45 and even 50 per cent.

The British tariff presents a fairly high number of duties of 20, 25, 30 and 33 per cent.

The difficulties arising from this situation were acknowledged at Geneva in May 1963 by all GATT members. It is obvious that an across-the-board cut of 50 per cent (or of any percentage) on all duties would not bring about the full reciprocity we all seek. If 50 per cent cuts were made, the Common Market tariff would then consist mainly of duties below 10 per cent, plus a couple of hundred between 10 and 15 per cent, while the US tariff would still include many tariffs above 15 per cent and a substantial number above 20 and even 25 per cent.

How can this problem be dealt with? An obvious way out would be to cut high duties by more than 50 per cent. All duties would then be cut by at least 50 per cent and some by more than 50 per cent. But this is excluded by the provisions of the US Trade Expansion Act.

The alternative solution is to make smaller reductions in lower duties – that is, when the existence of a significant disparity is recognized. It is along these lines that we are looking for an answer, and the Common Market has put forward a proposal which we think is fair and equitable. It would retain only some of the disparities which a comparison of US, UK and Common Market tariffs reveals.

Of course, the number of disparities which would have to be corrected may still appear too high to some people, though they are far less numerous than has sometimes been claimed. The reason for this does not lie in the proposed rules, which are liberal, but in the widely diverging structures of the tariffs involved.

The Community also recognizes that the problem of disparities is of great importance to the smaller European countries – in particular Switzerland – who are the main suppliers of some of the items for which the US has high tariffs; these items might come under the rules for disparities and the Community's tariff on them might consequently not be subject to a 50 per cent cut. The Common Market hopes to be able to work out a solution to this problem which will take into account the interest of the small European countries in securing the maximum tariff cuts on their main export products.

Agriculture a special problem

The disparities question illustrates the complexity and difficulty of the negotiation we are undertaking. It also shows that such complexities and difficulties can be overcome among friends who are committed to similar aims.

Agriculture is another great problem of the Kennedy Round. All countries of the free world tend to protect their farmers in varying degrees.

Here the Common Market has proposed a new approach for the negotiations:

The total level of protection afforded by each country to its farmers (including subsidies and export rebates, and not just tariffs and other conventional trade barriers) should be taken into account;

World-wide commodity agreements should be negotiated as a means of rationalizing the markets of certain important foodstuffs.

The Community and Atlantic partnership

People in the European Community feel that they are involved in one of the greatest and boldest enterprises of modern times. They are working toward the fusion – the peaceful fusion – of six fully developed national economies, which are, taken together, comparable in population and production to the United States. Carrying out this enterprise is bound to bring about changes in traditional relationships between Europe and the rest of the world. It is one thing to deal with six small or medium-sized countries; it is quite another to deal with a unit of the Common Market's magnitude.

The Community is aware of the difficulties which its unification creates for other countries and of the added responsibilities which this imposes upon it. It is vital, if the Community is to achieve mutual understanding with its partners in the free world, that the details should not be allowed to obscure the essential facts.

Partly as a result of American encouragement and help, the Common Market is no longer a dream, but an indestructible reality. It has a momentum of its own: the customs union is already developing into full economic union; the economic union will in turn develop towards political union.

The figures quoted earlier indicate that, during the first six years of its existence, the Common Market has been a cause of economic progress, not only in the six countries directly involved, but also in the free world as a whole. We should all be worse off if it had not come into being.

The reasons which prompted the United States, 20 years ago, to support the idea of European unification have lost none of their force. The most important among them is the realization that the prosperity, and perhaps even the survival, of the free world requires close and full partnership between a strong Europe and a strong United States.

Signs of this partnership are already emerging. The United States made a major contribution to the rebuilding of Western Europe in the post-war years. More recently, on a more modest scale, European countries have accumulated large dollar balances to give the United States time to solve its balance-of-payments difficulties. The United States would undoubtedly do the same for its European partners in a similar situation. In such ways as this, and in other ways, too, we can do a great deal together to ensure healthy, steady economic expansion and financial stability throughout the world. The partnership is developing, and will go on developing, if we do not falter in our resolve and in our efforts until it is fully achieved.

Annex I

Community, US and UK tariffs compared

UK tariff highest, Community's lowest

The Community's common external tariff is lower on average than either the British or American tariff, it varies between smaller limits, and includes fewer very high peaks, according to a recent study by Marcel Mesnage of the European Community Statistical Office. An equal 50% cut of all duties in the three systems would therefore leave many US and UK tariffs at a high level, while reducing the bulk of Community tariffs to negligible proportions.

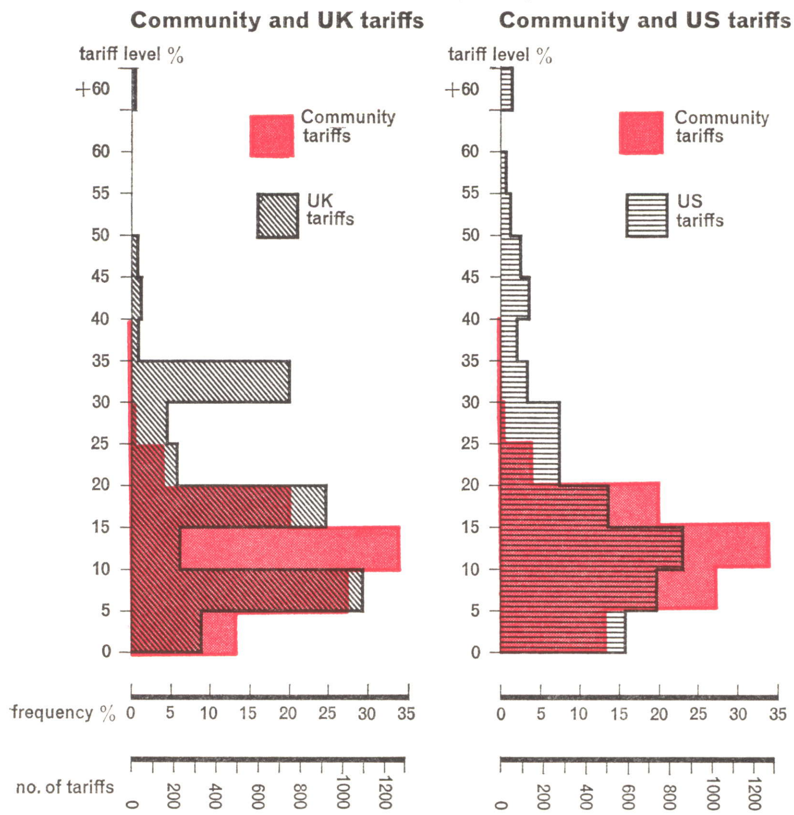
Comparison of the simple averages of all tariffs on industrial products in the Community, the US and the UK shows that the UK maintained the highest overall level of protection – 18.4%, compared with 17.8% in the US and 11.7% in the Community. M. Mesnage rejects the use of weighted averages (based on the relative importance of individual items in a country's total imports) on the grounds that the results are misleading because the level of a tariff itself has an effect on the 'weight' – that is, on the level of imports of the item concerned. A high duty may substantially reduce or even totally exclude imports of a particular item, yet in a weighted average the greater its protective effect the less impression it makes on the final results. M. Mesnage therefore prefers to use simple, arithmetical averages in his calculations, as these, he feels, do not disguise the inhibiting effects which high tariffs may have on trade flows.

Chart 1 shows the distribution of US and UK tariffs compared with the Community's common external tariff. Community tariffs are the most concentrated, with 80% of all duties between 4 and 19%. British tariffs tend to be concentrated around the 10, 20 and 30% levels, thus giving the graph three separate peaks. American tariffs vary the most widely, with slightly more zero or low duties than the other two, but also with more very high duties. The proportion of zero tariffs is virtually the same in all three cases: 8% in the Community and the UK and 10% in the US.

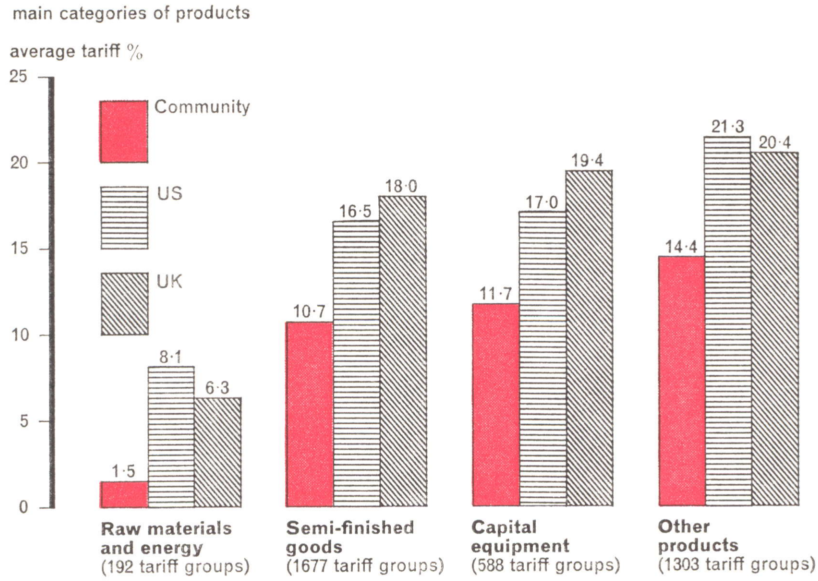
One of the Community's major proposals for the conduct of the forthcoming negotiations is that where two countries' tariffs for the same item differ by more than 10 percentage points, the otherwise agreed 'across-the-board' method of equal percentage cuts should be abandoned in favour of special measures that would reduce all parties' tariffs to approximately the same final levels. The extent of this problem is brought out by M. Mesnage's analysis, which shows that between the Community and the US there is a difference of 10 or more points for 30% of all items, and between the Community and the UK for 31% of all items. In practically all cases these high 'peak' duties occur in the US and British tariffs and not in the Community tariff.

Chart 2 shows the differences in average tariff levels for major categories of products. As would be expected in industrialized economies, all three tariffs – Community, UK and US – tend to be lowest for raw materials, rising through semi-finished goods to the highest levels on finished manufactured items. As a result there is a comparable order of magnitude between the three tariffs: where one country has a high tariff in a particular product category, the other countries' tariffs also tend to be relatively high. For raw materials and energy products, the most common single duty level in all three systems is zero – being applied in 74% of cases in the Community tariff and in 46% of cases in both the US and UK tariffs.

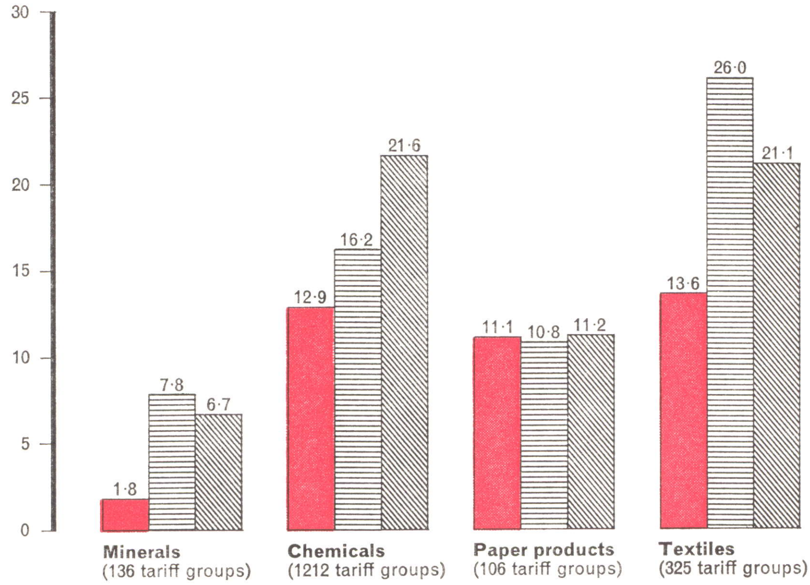
1. Where most of the tariffs lie: comparative frequency of tariff levels

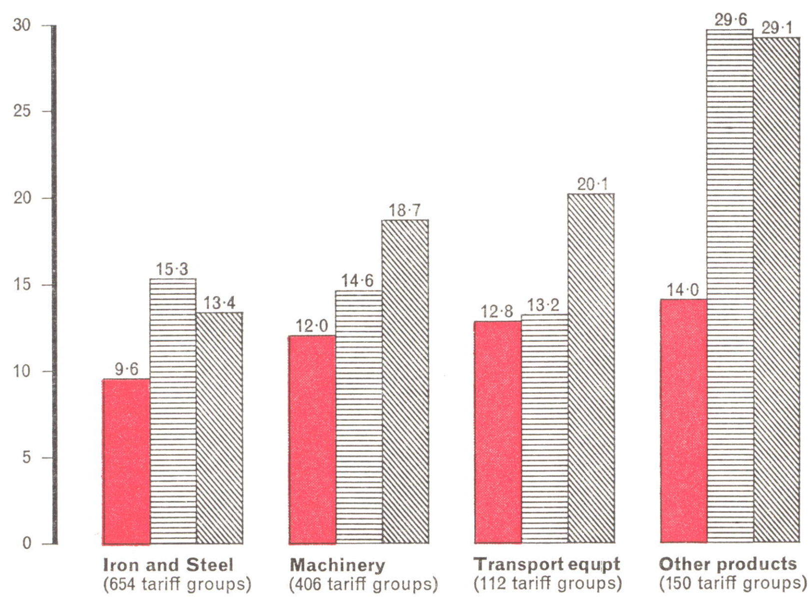


2. Average tariff levels
by major product groups



by industrial sectors





Annex II

External trade statistics

Note: The source of tables 1, 2, 4 and 5 is the European Community Statistical Office, referred to in the tables as ECSO

1. The world's chief trading areas

	1958	1962	Increase % 1958–62	Percentage of world totals (1962)
			$ millions	
Imports				
European Community (1)	16,156	22,327	38	18.9
US	13,208	16,240	23	13.7
UK	10,488	12,578	20	10.6
Latin America	8,530	8,840	0.4	7.5
Canada	5,351	5,852	9	5.0
Japan	3,033	5,636	86	4.8
USSR	4,350	6,450	48	5.5
World (2)	94,500	118,300	25	100.0
Exports				
US	17,751	21,285	20	19.3
European Community (1)	15,911	20,638	30	18.7
UK	9,276	11,059	19	10.0
Latin America	8,170	9,200	13	8.4
USSR	4,298	7,034	64	6.4
Canada	5,080	5,933	18	5.4
Japan	2,877	4,918	71	4.5
World (2)	88,900	110,100	24	100.0

(1) Intra-Community trade excluded

(2) Soviet bloc and intra-Community trade excluded.

Source: ECSO monthly external-trade statistics, issue No. 11/1963.

2. An open Community – and opening wider still

Community, UK, US and Soviet shares in world imports 1958-1963

Year	Total world imports ($ millions)	PROPORTION OF WORLD TOTAL: European Community	UK	US	USSR
1958	94,500	17.1%	11.1%	14.0%	4.6%
1961	112,200	18.2%	11.0%	13.0%	5.2%
1962	118,200	18.9%	10.6%	13.7%	5.5%
1st half 1962	58,600	19.1%	10.8%	13.6%	—
1st half 1963	60,800	19.8%	10.8%	13.4%	—

Source: ECSO.

3. How other countries' exports to the Community have risen, 1958-1962

With comparisons of their export performance to the rest of the world

Countries or areas	EXPORTS TO THE COMMUNITY 1958	1962	Change % 1958–62	EXPORTS TO THE REST OF THE WORLD 1958	1962	Change % 1958–62
T tal f r all non-member countries t g th r	**14,080**	**19,560**	**+ 39**	**70,035**	**86,840**	**+24**
Industrializ d countries	**7,773**	**11,460**	**+147**	**39,573**	**48,830**	**+23**
US	2,400	3,590	+ 50	15,332	17,780	+16
Canada	436	430	– 1	4,613	5,500	+19
EFTA	3,559	5,350	+ 50	12,179	14,670	+21
Other countries in Western Europe	681	1,050	+ 54	1,920	2,660	+39
Other industrialized countries[1]	697	1,040	+ 49	5,529	8,220	+49
Dev loping c untries	**5,513**	**6,845**	**+ 24**	**19,183**	**22,195**	**+16**
Latin America	1,320	1,810	+ 37	6,878	7,390	+ 7
Middle East[2]	1,360	1,620	+ 19	3,316	4,180	+26
Other African countries	2,003	2,318*	+ 16	1,858	2,262	+22
Other countries in Asia and Oceania	830	1,097	+ 32	7,131	8,363	+17
East rn bloc	**794**	**1,255**	**+ 58**	**11,279**	**15,815**	**+40**
Eastern Europe	697	1,170	+ 68	9,406	14,500	+54

[1] Australia, New Zealand, Japan, South Africa.

[2] Aden, Cyprus, Jordan, Iraq, Israel, Lebanon, Syria, Libya, Ethiopia, Sudan, Egypt.

*Including estimated North African exports to the Community in 1962.

Source: United Nations Monthly Statistical Bulletin, June 1961 and June 1963.

4. The Community as a major customer

Exports of countries which sent more than 20% of th ir exports to the Community in 1958.

Supplying country	Exports to European Community, 1958–62		Exports to rest of world, 1958–62	
	Change in $ millions	Change %	Change in $ millions	Change %
Europe				
Austria	+176.1	+ 38.7	+169.2	+ 36.6
Denmark	+ 49.1	+ 11.9	+311.7	+ 36.6
Spain	+141.6	+103.4	+106.8	+ 30.6
Finland	+109.1	+ 52.7	+220.4	+ 38.8
Greece	– 9.4	– 9.6	+ 26.2	+ 19.6
Norway	+ 59.8	+ 29.5	+169.6	+ 31.3
Portugal	+ 13.6	+ 19.1	+ 65.8	+ 30.4
Sweden	+314.6	+ 48.6	+520.0	+ 36.1
Switzerland	+329.7	+ 54.4	+352.4	+ 37.4
Turkey	+ 98.3	+109.5	+259.8	+149.1
Yugoslavia	+ 22.5[1]	+ 18.0	+104.6[1]	+ 33.1
Africa				
Ghana	– 7.0	– 7.2	+ 36.8	+ 18.8
Morocco	– 16.2	– 7.5	+ 29.9	+ 26.1
Nigeria	+ 44.8[1]	+ 38.1	+ 61.1[1]	+ 23.3
Uganda	– 15.1	– 51.2	– 0.9	– 0.9
Tanganyika	– 1.6	– 4.9	+ 27.9	+ 31.1
Kenya	+ 6.0	+ 24.1	+ 25.2	+ 37.0
Angola	– 2.7[1]	– 7.9	+ 9.3[1]	+ 9.9
Sudan	+ 20.5[1]	+ 63.3	+ 33.3[1]	+ 36.1
Tunisia	– 36.5	– 32.9	– 6.4[1]	– 15.1
Latin America				
Argentina	+69.4[1]	+ 21.0	– 99.2	– 15.0
Chile	+35.9	+ 32.6	+107.5	+ 38.6
Costa Rica	– 2.4	– 7.8	– 5.1	– 8.3
Ecuador	+ 3.6	+ 16.7	– 2.0[1]	– 2.7
Guatemala	+ 8.6	+ 38.1	– 1.8	– 2.3
Nicaragua	– 4.0	– 15.9	+ 23.3	+ 50.7
Peru	+96.7	+138.9	+151.2	+ 68.1
Salvador	– 2.6[1]	– 5.9	+ 5.7[1]	+ 7.9
Uruguay	+24.2[1]	+ 62.1	– 15.1[1]	– 15.2
Asia				
Cambodia	+ 6.0[1]	+ 39.7	+ 2.6[1]	+ 6.4
Cyprus	– 7.3	– 31.7	+ 15.9	+ 60.9
Saudi Arabia	– 91.3[1]	– 28.4	+ 52.2[1]	+ 9.1
Iraq	+ 88.4[1]	+ 31.3	+ 6.5[1]	+ 2.3
Iran	– 61.6[2]	– 25.5	+108.0[2]	+ 16.9
Israel	+39.6	+126.9	+103.2	+ 98.1
Pakistan	– 12.5	– 14.6	+108.2	+ 51.0
Syria	+28.9	+105.1	+ 26.2	+ 29.1
South Vietnam	+ 5.0	+ 16.4	+ 10.6	+ 43.0

[1] 1961 [2] 1960

Sources: ECSO monthly external-trade statistics
UNO Directory of International Trade, 1960.

5. European Community imports by economic areas

Origin	1958	1963	Increase % 1958–63
	$ millions		
Intra-Community trade	6,790	15,706	+131
Total all non-member countries	16,156	24,644	+ 53
Class I (Industrialized countries)	8,526	14,319	+ 68
of which: EFTA	3,608	6,160	+ 71
United Kingdom	1,192	2,446	+105
Other Western countries	834	1,386	+ 66
North America	3,238	5,487	+ 69
of which: United States	2,808	5,036	+ 79
Class II (Developing countries)	6,824	8,816	+ 29
of which: Overseas countries and territories associated with European Community	1,546	1,900	+ 23
of which: Associated African States (incl. Madagascar)	914	987	+ 8
Latin America (South and Central America)	1,647	2,267	+ 38
Class III (Eastern countries)	789	1,477	+ 87
of which: Eastern Europe	678	1,362	+101

Source: ECSO monthly external-trade statistics.

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