

From the London End

The European Free Trade Association

WHILE Dr Adenauer, the West German Chancellor, was assuring the British Government that the Common Market would not be allowed to create a separate or exclusive bloc in West Europe and that there was no intention that the Common Market would lead to a division of the economic strength of the West, the British Chancellor of the Exchequer arrived in Stockholm to initial the convention of the European Free Trade Association. Against the background of repeated assurances, ever since the Rome Treaty was signed in 1956, that the West European economy will not be split into rival groupings, the current assurances take on a character of broad intention rather than agreed policy in the countries which are participating in each of the two trading blocs.

It is well known that much of Britain's foreign policy is being determined by the economic breach in West Europe and by the determined way in which both France and Germany are moving towards the transformation of the Common Market into an organ for closer political consultation and arrangements among the six continental European countries' Britain's creation of the European Free Trade Association made up of the so-called "outer seven" countries has in itself little economic significance. The increase in trade among the outer seven is not likely to be all that large with the progressive reduction of tariffs. The bulk of the outer seven is made up of small trading countries—specialists in agriculture and marine products which, in any case, possess elements of cost and price advantage in their trade with Britain and which, further, are already established markets for Britain's industrial exports.

CONDITIONED BY POLITICAL ANXIETIES

The outer seven arrangement is, therefore, a political instrument to bring about some situation which would provide a basis for renewed negotiations between the Common Market countries and the United Kingdom. In the Anglo-German discussions in London this week, the British Government appeared to recommend to the West Germans, and impliedly to the rest of the Common Market countries, that rather than totting the Common Market as the

institutional framework for closer political consultations, the Western European Union (which was set up after the collapse of the European Defence Community plans) should be revived. It is, of course, not known what reaction Dr Adenauer had given to this proposal. What is, however, clear is that the European Free Trade Association is conditioned more by the political anxieties of Britain towards the Common Market than by anything which can be construed as trade liberalisation or of advancing British export prospects on the European continent-

The British problem is a particularly serious one. In the West German Bundestag, the other day, the Foreign Minister made what was regarded as a 'solemn' statement of West German foreign policy—a statement which foreshadowed the likely course of the Anglo-German discussion in London. Herr von Brentano, the Foreign Minister, declared :

"I should like to underline the pronouncedly political character of these treaties (i.e., the Rome Treaty). . . the whole world should understand that a new and revolutionary concept is at the back of these treaties- By this European co-operation the foundation for a Franco-German understanding was laid . . . nothing has happened that could possibly be so decisive (for European politics) as this understanding-"

The century-old nightmare of a continental European coalition has once again cast its shadow over British foreign policy. To Britain then the principal impetus for a settlement with the Soviet Union comes from the European Common Market. In retrospect, the Soviet drive to change the status of Berlin must have been in the nature of a god-send to Mr Macmillan for it provided the rationale for the new and far-reaching initiatives which we have seen to come from London (and to the obvious distaste of Paris and Bonn).

GAIN IN BARGAINING POWER

The background to the Stockholm plan for a free trade area of the 'outer seven' has already been discussed in these columns. It is sufficient to say that the decision by the

British Government to agree to this plan was the product of a difficult economic and political calculation. Given the negotiating history of the past three years the establishment of a Free Trade Area among the outer seven is an understandable development. It may prevent certain developments from occurring which in the British view would be undesirable (as, for example, some of the Scandinavian countries succumbing to the Common Market). It may lead to a modest increase in British exports but more important it may strengthen Britain's hand in future negotiations with West Europe and the Common Market.

It is well to assess these possible advantages now that the Stockholm Plan has reached the stage of a draft treaty almost ready for signature. The Free Trade Association (of the outer seven countries) appeared to offer a number of possible advantages when the plan was first mooted. The most important was that it would keep the outer seven together and so rule out the possibility of additional countries either joining or making bilateral agreements with the six in the Common Market- It was obvious that the countries whose trade with the Common Market was particularly important would be under domestic pressure to reach agreement with the six. And if this occurred, there would be less interest on the part of the Common Market countries to reach a wider agreement. Of the outer seven, Denmark had seriously considered joining the Common Market and it was therefore to Denmark that Britain was forced to give important agricultural concessions-

LIMITED ECONOMIC BENEFITS

One point is, however, clear. The British Government has stated in its White Paper of July last, that it believed the Stockholm plan to be desirable, in itself, apart from its possible contribution to a settlement of wider problems- And yet a decision to go ahead with the plan on its economic merits alone would have been most unlikely. The outer seven free trade area, in terms of size and trade structure does not fulfil the type of advantages expected of customs unions or free trade areas in general. Among the outer

seven, there are comparatively few sectors in which British industry will be confronted with competitors of comparable size and efficiency. One semi-official report states that "the removal of tariffs may mean cheaper goods to the consumer in a few cases but since most raw materials and many semi-manufactured products already enter free of duty, the impact on the domestic price structure will be limited"

The economic advantages of the outer seven arrangement for Britain is even less certain when examined in terms of the existing trade pattern and structure. In all the countries of the outer seven, Germany is the principal competitor to the United Kingdom. In Switzerland, France and Italy are also important competitors and Italy is an important trading partner of Austria. Together, the Seven (excluding the UK) import about £980 million of manufactured goods from the Common Market and only £525 million from each other and the United Kingdom. About one-third of Britain's exports to the outer seven groups is made up of raw materials which enter duty free. Another third confronts duties of less than 10 per cent and if, say, Germany wishes to maintain her competitive advantage in similar goods, a slight price reduction will enable her to hurdle the outer seven tariff level. Moreover, where Germany's trade is established in the outer seven—machinery of a particular kind already installed, dealers well known, customers accustomed to particular services—a shift to British goods would be most improbable. Hence the overall expansion of British exports to outer seven is likely to be extremely small and certainly will not compensate for the likely loss of markets in the Six-

BILATERAL AGREEMENT WITH RUSSIA?

It is evident that the argument that the Stockholm Plan would enable some accommodation with the Six in the Common Market was central to Britain's calculations. This argument is, however, a dangerous one and may very well defeat its purposes. When the Free Trade Area negotiations broke down, and the Stockholm Plan was first discussed, there was talk of retaliation and economic reprisals. It is fortunate that such drastic steps were not taken. Instead the Seven, in constructing their proposals and draft treaty have tried hard to remove any


taint of retaliation. Nevertheless the Outer Seven arrangement possesses the element of 'economic pressure' as an aid to its negotiating power. With France as the principal pace-setter in the Common Market and whose trade with the outer seven is small, economic pressure is a somewhat questionable weapon in the current situation. So, too, will attempts by Britain to isolate France prove dangerous.

Basic to all the problems for Britain is to find an acceptable way to link the outer seven and the Common Market. And yet no one is clear as to what character this link should take. It is certain that not even the British Government has given thought to this. The West Germans have suggested the worst of possible solutions. Herr von Brentano has stated that the solutions "should be

sought step by step" and "unilateral and bilateral associations between the Common Market and third states are conceivable such as are presently being prepared with Greece and Turkey."

In spite of all these problems, insoluble as they may seem, the European Free Trade Association is a heroic attempt to find a solution to the economic breach in Europe and of warding off the isolation which the Common Market imposes on Britain. If there is no solution along the lines of a link between the outer seven and the inner six, we may yet see Britain choosing what presently may appear to be unimaginable—a bilateral arrangement with the Soviet Union to counter-balance the economic and political weight of the growing Franco-German combination in Europe-

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