

Mayer, Otto G.

Article — Digitized Version

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Intereconomics

Suggested Citation: Mayer, Otto G. (1972) : Free trade in Western Europe — only?, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 07, Iss. 9, pp. 259-, <https://doi.org/10.1007/BF02929608>

This Version is available at:

<https://hdl.handle.net/10419/138690>

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Free Trade in Western Europe — only?

Six months to the day after the EEC accession treaties with Great Britain, Eire, Denmark and Norway free trade agreements have now been signed with the "residual" EFTA states—Switzerland, Austria, Sweden, Iceland, Portugal and Finland—who will not join the EEC. The danger of western Europe being ultimately split into two economic blocs has thus been averted.

When the decision to enlarge the EEC was taken, it looked as if EFTA would break apart, and no one could close his eyes to the grave consequences this might have entailed. Had the present solution not been found, tariff walls would inevitably have been built up again between acceding and non-acceding EFTA countries. This however had to be avoided in the interests of the residual EFTA and the EEC states alike.

The residual EFTA states, with whom free trade agreements have now been concluded, are as a group more important for the Common Market of the "Six"—Federal Republic of Germany, France, Italy and the Benelux countries—as trade partners, for instance, than the group of EFTA states who have joined the EEC. In 1971 the Community of the Six imported nearly 20 p.c. more from the residual EFTA countries than from the acceding ones and exported to them as much as 70 p.c. more than to the candidates for EEC membership. Seen from the other side, the residual EFTA states did between 50 and 70 p.c. of their foreign trade with the two European groupings.

These few figures clearly show that, political considerations apart, it was important on grounds of economic policy to prevent tariff walls being put up once more. This aim has now been accomplished by programmed dismantlement of the tariffs between the EEC nucleus and the residual EFTA states parallel to the tariff cuts and adjustments planned to take place between the original EEC and its new members until mid-1977, so that EFTA's abolition of internal tariffs can continue. As a result of this parallel progress the danger of shifts in commerce and matching counter-measures will be avoided. The creation of a market encompassing 16 European countries will undoubtedly bring further improvements in the division of labour and create more favourable conditions for growth.

It remains to be seen however whether this link will be to the benefit of world trade because the extension of EEC influence is for many third countries tantamount to regionalisation, to the formation of a trading bloc from which they have been excluded. There is a danger of economically strong countries outside the EEC, like Japan and the USA, which are hit hardest by the developments in Europe and the EEC's encroachment on the Mediterranean area and other regions, taking countervailing action and setting up national trade barriers or supranational preference systems.

While examples of the former are known and can by now be found everywhere, the latter are at present still only being discussed. There is, for instance, a lively discussion going on about a Pacific Free Trade Area which could potentially comprise the USA, Canada, Japan, Australia and New Zealand. The unambiguous object of this PAFTA is the establishing of a counterbalance to the dynamic and expansive EEC-bloc, since any individual state has only too small a weight for confronting this bloc and obtaining equivalent concessions. So far the USA still exercises restraint towards these plans. But parallel to the increasing protectionism in the USA the other Pacific nations will be confirmed in their intentions. For, from their point of view, they would otherwise fall between the millstones of the EEC and the USA.

Once such a free trade zone has been established, a great step would have been taken towards the regionalisation of world commerce; for such concentrations do not, for a prolonged initial phase at least, curb but as a rule aggregate nation-state protectionist moves against third countries, as the European example shows full well.

For this reason the EEC must thwart such tendencies from the outset and pioneer and initiate world-wide liberalisation efforts. Thanks to its political and economic potentialities, it is capable of taking such action. An opportunity is presenting itself at this very moment since the preparations for the next GATT round, to be held next year, have already begun.

Otto G. Mayer