

The Broader View: ECM and World Trade

February 5, 1958
American Management
Association

ROBERT MARJOLIN

Vice President, Commission of the European Economic Community

American industry is clearly taking a highly constructive approach to the European Common Market. U. S. business men recognize that ECM is here to stay. Without losing time, they are making plans to adjust to the new reality.

Three questions--technical and economic problems aside--are of vital interest to American industry. They concern the future of the Community; the intentions, motives, and resolve both of the member countries and of their common institutions.

1. First of all, will the Treaty be fully carried out? Will the European Commission and the member countries succeed in overcoming the difficulties and crises of all natures which we can anticipate?
2. What will be the attitude of the six countries and their common institutions toward trade with the rest of the world, and especially trade between Europe and the United States? Will they follow liberal or a protectionist policies? Is the common external tariff that will surround the Community after the transition period of 12 to 15 years,

to be a maximum or minimum tariff? Are the quantitative restrictions which the U.S. manufacturer will meet when he tries to sell goods in Europe likely to be tightened or loosened?

3. What will be the European attitude toward foreign private investments, and especially toward American investments in Europe? Will the six countries seek to attract foreign capital? Or will they follow restrictive policies?

In trying to answer these fundamental questions, we must cover not only those provisions of the Treaty that deal with Europe--that is, with the Six--but also those that deal with Africa. This aspect of the Treaty, while sometimes overlooked, is actually very important.

1. WILL THE TREATY BE FULLY CARRIED OUT?

To understand ECM, it is essential to grasp the spirit in which the Common Market Treaty was drafted and ratified in the six countries. We touch here on a most important point: The spirit that inspired the Treaty was not primarily economic or commercial. One can be sure, in fact, that had the governments and parliaments of the Six been animated only by their production or trade interests, they would not have overcome the considerable difficulties which stood in the way of a European Economic Community.

Nor would they have been prepared to assume the risks which such a drastic undertaking involves. For the ECM countries have been enjoying a remarkable prosperity. During the past few years,

they have experienced an economic expansion exceeding by far anything that they had known before. In several of them, industrial production has increased at the rate of about 10 per cent a year.

Then why have the Six gone forward as they have? Why have they embarked on such a tremendous and unprecedented task when things were going well and when people might have thought that they could enjoy the fruits of their production quietly, without making any special effort?

The answer to that question, which is also the key to the main motive of the six countries in creating EEC, is that the European Economic Community is, before all else, a political conception. It is a first and major step toward integration of all economic and financial policies--which is essential if Europe is to be preserved as a political and economic force in world affairs.

The Six certainly regard the economic consequences of the Treaty as important, but they feel that these consequences are subordinate to the idea of the survival through joint action. The shortage of fuel that followed the Suez crisis of 1956 gave added impetus to this idea. By making Europe conscious of its weakness and vulnerability, it increased considerably the determination of Europeans to prevent the recurrence of such a situation.

Two conclusions follow which are of special importance to

American business. First of all, the technical and economic difficulties in the path of EGM will be overcome without question. The six countries cannot give up the Treaty, or accept anything less than its total fulfillment. That would mean that they were giving up the hope and prospect of unity, and they know that unity is essential to their salvation. Crises there will be, in the creation of the European Economic Community, but we shall overcome them.

A second conclusion, perhaps still more important, is that the Common Market is a beginning, not an end. There is in the Treaty an external logic that will compel the extension of common action to fields yet untouched. Take, for instance--and this is only an example--the provision that, during the transition period, the Six will gradually adopt a common attitude vis-a-vis the rest of the world. Not later than the end of that period they must negotiate in common commercial treaties with third countries. This necessarily means that there must be common action or, at least, strict coordination of action in matters of credit, fiscal, budgetary, and monetary policies.

America should therefore be ready for a closer and closer economic unity among the six countries.

2. WHAT WILL BE THE ATTITUDE TOWARD THE REST OF THE WORLD?

The governments and the peoples of the six countries do not conceive of this movement toward the unity of Europe, which is the basis on which rests the whole Treaty, as being outside the framework of the Atlantic Alliance or in any way interfering with the

fundamental solidarity of the Free World. They do not conceive of a united Europe as a third force. Their United Europe is part of the Free World and a permanent ally of the United States.

In practical terms, this means that the six countries and their common institutions will see to it that third countries are not hurt by the creation of the Common Market and that they share in its benefits. The approach to trade with third countries, including the United States, is going to be liberal and not protectionist.

Trade Barriers. To cite a concrete example, let us look at Article 18 of the Treaty, which reads as follows:

Member States hereby declare their willingness to contribute to the development of international commerce and the reduction of barriers to trade by entering into reciprocal and mutually advantageous arrangements directed to the reduction of customs duties below the general level which they could claim as a result of the establishment of a customs union between themselves.

There is no need to belabor the importance of this statement. It is a solemn declaration by the Six that the common external tariff which will result from the Treaty and the subsequent negotiations is a maximum; that the way is open to a gradual reduction of that external tariff through negotiations within the framework of GATT-- provided, of course, other countries are ready to meet the Six halfway.

As to quotas, which have been the chief obstacle to the development of trade between the United States and Europe since the end of the war, the member countries have declared that their objective is to liberalize trade with third countries at the highest possible uniform level. What does this mean? It means that the six ERM

countries and their institutions will follow the most liberal import policy that their balance-of-payments position will permit. They state explicitly that they will not use quotas and quantitative restrictions as a protectionist device to shield their industries from competition.

The record of these countries among the Six which have not had balance-of-payments difficulties in the past few years is a guarantee of their sincerity. Such countries as Belgium, the Netherlands, and Germany are following a very liberal import policy with respect to the United States and the rest of the world.

The Association of Africa. The Association of Overseas Countries and Territories, and the relationship between Europe and Africa established in the Treaty, are essential parts of the agreement. They must be viewed not only from an economic but also from a political standpoint.

There is a large measure of agreement in Europe and in the United States that the most important threat to our security and to our way of life is Communist penetration of the underdeveloped countries--in Asia and Africa, especially. This threat is a consequence of the attraction which the Communist system presents to masses of people suffering from a very low standard of living and often from sheer starvation. Unless we succeed in improving the lot of these hundreds of millions of men, women, and children, there is great danger that Europe and North America will become increasingly isolated and, in perhaps 10 years' time, will find themselves practically besieged in a world dominated by hostile forces. Therefore, a major effort has to be made to prevent the movement of the under-

developed countries toward a form of government which is neither in their interests nor in our own.

Along with the great contribution being made by the United States in the field of foreign aid, the European countries also are doing their share. The French Government, for instance, is investing and spending in overseas countries and territories linked to France, for purely civilian purposes (exclusive of the cost of military operations in Algeria), close to \$1 billion a year. But all this, of course, is not enough; the need is much greater and must be met in some way.

The Treaty, in brief, provides for joint action in Africa and in the other overseas countries and territories linked to any of the Six. First of all, these countries and territories will enjoy free access for their goods to the European Common Market. Second, they will be able to buy the goods they need wherever, in the six countries, they are the cheapest and are of the quality they require. The French, for instance, have given up all right to preferential treatment; gradually, over a period of 12 to 15 years, the other EGM members will enjoy in French Africa exactly the same treatment as France. Third, the Six will contribute to a development fund, over and above what is already being spent, to help improve the economic situation of the overseas countries and territories. Lastly—and this was a very difficult decision to make—the Six have agreed that, in order to insure the development of Africa, those countries and territories will be entitled to protect their infant industries against competition from commodities produced in the EGM countries.

At a time when people are worrying desperately about how we can prevent Soviet penetration of the underdeveloped areas of the world,

the six countries of the Common Market have thus done something which is worth studying. One of the results is going to be that, with the exception of those duties which are necessary to protect some new industries, Africa will be open to European goods. Therefore, the market which is being created is not only a European market; it is a market which will also extend to Africa.

3. WHAT ABOUT THE ATTITUDE TOWARD FOREIGN INVESTMENT?

It can be safely said that the continuing influx of American capital into Europe will benefit all concerned and that the European attitude toward it will continue to be positive.

The European countries have repeatedly--in OEEC, for instance--stated this positive attitude toward American investment in Europe. By doing so, they have been only expressing their self-interest. Europe, like the rest of the world, is suffering from a shortage of capital; therefore, the importation of capital into Europe contributes to the solution of European economic problems. And with capital usually comes equipment, technique, and know-how.

Those who have already had experience in foreign investment know that some precautions have to be taken. In Europe, however, the conditions do not present great difficulties and should easily be complied with. For instance, there is the necessity of avoiding, in general, situations where a whole industry or a large part of it is under foreign control. And, wherever possible, it certainly is desirable that American capital associate with European capital in any new venture. If the U.S. business man will just put himself in the place of his European counterpart, he will come to the right conclusions.

In any event, one of the great benefits which will grow out of the Common Market--for the United States, of course, but especially for Europe--is going to be the investment possibilities which it will open to American capital. There is, in fact, a very bright prospect of close cooperation in this field between the U.S. European Common Market and the/business and Finance.

Continental Western Europe has been, in the past few years, the most dynamic part of the Free World from the economic point of view. There is still great room for the development of European production. At the same time, there is also room for a great increase in imports.

In a way, Western Europe is in a privileged position today. Why? Because, while her needs are expanding, her industries are already developed. It is much easier to enlarge an existing capacity than to create a new one from scratch. On the other hand, people are increasingly eager for cars, refrigerators, radio, television sets--everything which makes life more pleasant.

Continuous expansion should therefore be the rule in Western Europe over the next few years. Whether production will continue to grow at the rate of 10 per cent a year, as it has recently in some countries, is impossible to predict, but the rate will be high. The situation would, of course, be altered if the United States were to suffer from a lasting recession or even a lack of economic expansion for several years. For the U.S. economy, as is well known, gives the tone to the rest of the world. Thus recession or stagnation of a lasting character in the United States would

drive European countries into a defensive attitude, and protectionist policies would surely be the result.

* * *

The Free World is faced with grave problems. We have only to look at the headlines in the papers every day to become convinced of it. We--that is, Europe and North America--must consolidate our position in the world and help the underdeveloped countries in their efforts toward a decent way of living. Because we are the two great centers of freedom in the world, our ties have to be very close. Anything that strengthens these ties will very greatly increase the chances of world peace.

The Common Market is a bold move to unite Western Europe and make it a powerful partner of the United States. It will by no means eliminate all our problems, but it should put us in a position of strength to solve them with resolution and without fear.