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WHAT DOES GLOBALIZATION MEAN FOR THE WORLD TRADING SYSTEM?

by
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Abstract

The paper analyzes how the WTO-rule system has to adjust to a globalized world economy. Challenges in the traditional area of the exchange of goods and rules for new areas of international exchange (services, property rights, factors of production) are discussed. Specific attention is given to new rules for the environment. A variety of approaches are dealt with that stabilize the rule system and improve its acceptance.

Institutions matter. They define how things are being done. In the world economy, as in national economies, a set of norms, rules and informal procedures serve to reduce transactions costs, most prominently to diminish uncertainty arising from the behavior of market participants or originating from the non-cooperative conduct of sovereign nation states. The basic idea of such a world economic order for the trading system is to provide an institutional framework that allows the participating economies to capture the potential welfare gains from the international division of labor.

An international order¹ which develops in the course of time (Axelrod 1986, North 1990) represents a public good being used in equal amounts by all. It provides a skeleton of an international economic constitution for sovereign nation states in the area of international exchange. A rule system for the behavior of governments take the place of ad hoc negotiations between governments. A central element of such a rule-based institutional framework for the world economy is that sovereign states voluntarily commit themselves to respect rules which prevent strategic, i.e. uncooperative, behavior by individual countries. The contractually binding commitments, undertaken freely by governments, are ratified through domestic legislative processes (Ruggiero 1998). Strategic behavior of national governments would destroy the public good of the international order; representing a negative externality for the rule system. The rules must prevent such strategic behavior. Self-commitment by states limits national governments' choice of actions in the future and in this sense represents a negative catalogue. It protects the international division of labor against national governments (Tumliir 1983: 72). The self-commitment of states is also a shelter from the power of protectionist groups in the individual economies. Moreover, the rules must induce nation states to act cooperatively in certain

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¹ On the relevance of establishing an institutional order („*Ordnungspolitik*“) compare the Freiburg school of economics in Germany, especially Eucken (1940).

areas (Haggard and Simmons 1987: 513) and to develop the system further. The WTO is not only about respecting rules but also about rule making.

The contents of the institutional arrangement for the world economy depend on the types of interdependence among countries. The rules follow changes and trends in global interdependence. When traditional areas in the international division of labor vary in their character, rules have to adjust. When new areas of international exchange are opened up, new rules have to be worked out. When the rule system itself leads to liberalization, new rules have to be developed for a more liberalized world (Krueger 1998: 3). Traditionally, rules for the exchange of goods are at the core of the world trade order. Recently, other impediments to trade such as national competition policies, national regulations and social norms are discussed. Moreover, other areas of exchange have come to the foreground such as the trade of services and the international exchange in information technology and information services. Also rules for the mobility of production factors — labor, investment (capital) and technology, most prominently property rights — as well as conditions for the international division of labor in the financial and monetary area are receiving increased attention in the economic policy discussion. Finally, norms for the use of the environment will acquire greater significance in the future.

Our issue is how the policy of establishing, securing and extending a world trading order is affected by a globalizing international economy. Globalization means that the interdependencies among countries in the world economy are becoming more intense. Transport costs and communication costs are drastically decreasing, other impediments to the international exchange such as tariffs and political barriers lose importance, the economic distance shrinks: i) In the goods market, segmentations are reduced, markets are more contestable, competition becomes fiercer. ii) New regions like Eastern Europe and China, so far more or less excluded from the international economy, are now being fully integrated into the international division of labor. Since these countries have an abundant labor supply, the world experiences an increase in the supply of

labor. At the same time, the world market is widening to an unprecedented extent. iii) New products such as services are gaining more relevance in the international division of labor. iv) Capital and technical knowledge become more mobile. locational competition among states for mobile capital and mobile technical knowledge is intensified. v) There is a greater awareness of global phenomena, an important area being global environmental goods.

I. Challenges in the Traditional Area of the Exchange of Goods

The aim of the trading system is to allow the international division of labor to occur as smoothly as possible. For this task, quite a few challenges exist in the traditional area of trade.

Finishing some missing pieces of the free trade system. One line of strengthening the WTO-system is to continue the liberalization efforts in the traditional areas of merchandise trade and to finish some missing pieces of the institutional arrangement for free trade (Langhammer 1998). This means to push the results of the Uruguay Round further. First, there is room for further tariff reductions. Even though average tariffs rates of the OECD countries are low, peak tariffs are still relatively high for some consumer goods. Average industrial tariff rates of developing countries are in the range of 10 to 20 percent (Finger et al. 1996). Second, all voluntary export restraints which were used to circumvent tariff liberalization should be eliminated by the year 2000. No new forms of quantitative restrictions should be allowed. Third, the two sectoral exemptions from the non-discrimination principle and from the most-favored-nation treatment in the domains of agriculture and textiles represent quite a challenge. It is important to stick to the phase-out until 2005 in textiles, and not to delay the bulk of liberalization to the latest possible deadline (Blackhurst 1997, Spinanger 1997). In agriculture, where tariffs have become more important with the tariffication of quantitative restraints, new negotiations have to be launched.

Subsidies and Strategic Trade Policy. When tariffs and quantitative restraints will lose importance in the future, governments may be tempted to use subsidies in order to lower their producers' production costs, thus establishing an artificial price advantage and distorting the international division of labor. One conceivable response to this would be simply to ignore and tolerate domestic subsidies, especially for old industries like coal since a subsidizing country does not employ its resources optimally, and thereby accepts a loss of its own welfare. One cannot, however, be too complacent about domestic subsidies because strategic trade theory could, in the future, become more appealing to practical politics and provide a rationale for subsidizing „new“ sectors, albeit on the basis of rather naive models. We may see more of this interventionistic approach in some European countries as a reaction to globalization with subsidies by one country being used to take market shares away from the corresponding sectors of other countries. This may lead to political demands for retaliation. Thus, the effect of subsidies may be as detrimental to international trade as traditional protectionist measures; they may also be part of an aggressive bilateralism. According to the WTO-rules, trade-distorting subsidies for export goods and import substitutes are forbidden and product- and industry-specific subsidies are inadmissible if they harm the trade opportunities of other members. Even so it is difficult to demarcate subsidy practices from other admissible policies such as research assistance and aid in adapting to new environmental technologies. It is likewise difficult to penalize and stop violations in the framework of monitoring processes. Furthermore, important sectors such as agriculture and the aviation industry either implicitly or explicitly still enjoy special treatment. Therefore, the existing subsidy code, of which the core is present in the world trade order, must be further developed in order to prevent subsidy competition between governments.²

National technology policy should be dealt with in the same way as national subsidies. Thus, the international subsidy code must set limits for industry-

² On the difficulty of subsidy control compare the EU-experience.

specific research subsidies. In contrast, there is no need for international institutional regulations concerning the improvement of the general conditions for research and development, for example, when countries generally improve the tax framework or the conditions for research and development, innovation, investment and entrepreneurial activity as well as organize basic research and further technology transfer so that their countries can be internationally competitive.

Administered Protection. Antidumping and countervailing duty measures, though elegantly defensible on a theoretical level, can easily develop into a severe impediment for trade. They are defined by national legislation and can be captured by national interest groups. They represent a way around bound tariffs and (now) forbidden quantitative restraints. Even if they are not actually applied, the threat of using them entails uncertainty and may already lead to the „appropriate“ export behavior. In economic categories, contingent protection represents effective protection. This „administered protection“ (Krueger 1998: 8) seems to have become more important as an instrument of US trade policy as a protectionist device in the course of time. The task for the WTO will be to contain the protectionist impact of this approach; standards have to be defined which must be respected by national anti-dumping laws.

A New Form of Protectionism? With the integration of the world economy due to globalization, single sectors, individual regions or specific groups may lose, most prominently low-skilled labor in the industrialized countries. Although the academic debate is still unresolved with respect to the question whether the need for wage differentiation in industrial countries is due to labor saving technological progress or due to intensified trade (Freeman 1995, Baldwin 1998), political pressure in industrialized countries may increase to take refuge in protectionist devices, especially in continental Europe where unemployment is high. This is a severe threat to the world trading system. Moreover, some developing countries fear to become marginalized in a globalized world. The international community has to withstand these political pressures for more pro-

lectionism. The main response to this backlash of globalization must be to point out that each individual country will gain from an intensified international division of labor than under fragmented markets. It is the task of each country to find national measures to compensate the potential losers of globalization.

Social Standards. As a response to globalization there have been increasingly calls to harmonize social norms internationally or to introduce world wide minimum standards (on environmental norms see below). Several arguments are put forward. One is that it is ethically not acceptable to have workers in developing countries work under dramatically diverging conditions from those in the developed world. The other is that workers in industrialized countries cannot possibly compete against the low wages in the developing countries and that "reasonable" social norms in industrial countries cannot be enforced if imports enter markets under "sub-standard" norms. The harmonization of social norms is supposed to be accomplished by using trade policy measures as a threat. Countries which do not apply these standards would be denied access to markets elsewhere. Above all, the developing countries would be negatively affected by such an approach. These countries have a lower labor productivity and are thus unable to pay the same wages that industrialized countries can pay. For similar reasons neither can they be expected to adopt the industrialized countries' social security systems. Therefore, a world-wide harmonization of social standards should be avoided.

Free Market Access. The world trade order is essentially oriented to denying governments (or integrated regions) tariff and non-tariff instruments with which the governments could directly intervene in trade flows at their borders. Such instruments have been outlawed through a negative catalogue. However, this does not guarantee that there will be free access to markets. Quite in contrast, recently national legislation has become more important as a market entry barrier. Such barriers, arising from national legislation or practices, can include economic policy measures in the broadest sense, such as licensing procedures for economic activities including facilities and products, technical standards,

arrangements for the public contract system and interlocking ties between firms (as with Keiretsu in Japan) on the same or different levels of the vertical production structure, thereby discriminating against outsiders (Ostry 1995).

Recently the tendency has become apparent to link market access more strongly to national regulations of the country-of-destination. Such conditions set up additional barriers to the international division of labor. The country-of-destination principle leaves it to the importing country to set the domestic standard as the yardstick for its imports. The result would be a potpourri of diverging standards representing barriers to trade; moreover, such regulations can easily be captured by interest groups. The attempt of GATT has been — and the aim of the WTO must be — to push back the role of the country-of-destination principle. Which regulations are set for the production of goods should be left to the discretion of the country-of-origin. The different regulations of national countries-of-origin should rather have equal standing competing with each other. A weakening of the country-of-origin principle and a strengthening of the country-of-destination principle will inevitably harm the multilateral order (Langhammer 1998). The goal of the world trade order is therefore that countries mutually accept the regulations of the country-of-origin for product quality and production processes in order to minimize transaction costs. Thus, competition among rules can thrive. Only in precisely demarcated cases, for example, public health protection, should the country-of-destination and its standards take precedence over the norms of the country-of-origin. But even then the measures adopted should involve neither discrimination nor protection.

Competition Policy. In an international economic order, markets must not be closed or distorted through the market power of firms. The globalization of world markets does make markets more competitive, and in this sense free trade is the best competition policy; all measures which increase market access support competition policy. However, globalization also enables enterprises to orient their policies with the aim to create international monopolistic positions and to exploit them in controlling prices to the disadvantage of buyers. Two issues

arise in this respect: One is that national competition policies should not be oriented towards the advantage of domestic enterprises or home-based multinationals and should not permit firms to build up or exploit monopolistic positions internationally. The other is that (national or international) competition policy should counteract business practices intended to reduce competition, prevent the exploitation of market power, and help to improve the contestability of the world product markets.

An international institutional framework in which competition policy effectively restricts the misuse of monopolistic market positions and discourages competition-limiting mergers is not presently foreseeable. Currently, the international community does not appear close to an agreement on a right of complaint which parties injured by anti-competitive practices or policies could employ before an international court or an international competition authority empowered to enforce competition rules (Scherer 1994). Thus, at present we can only expect to establish a few minimal competition policy rules for countries or integrated regions (such as the European Union), either in the framework of the WTO (Immenga 1995) or the OECD. We must also consider the option that initially only some of the rules would be agreed upon by the most important OECD countries, because there are fundamental differences in their legal systems, as between Anglo-Saxon and Continental European law. What will be necessary is to change the orientation of national competition policies. Restrictions on competition which domestic enterprises impose abroad will have to be taken into account so that a country harmed by another country's competition policy will have the right to obtain changes in the objectionable competition policy. An institutional consultation- and sanctioning mechanism must be created (Graham 1995). The details of how a framework for competition policy can be achieved is currently being intensively discussed in the literature (WTO 1997). Under consideration are the effects doctrine with an international right to extra-territorial legal application (Immenga 1995), treaty agreements — including bilateral treaties between the USA and Europe — on the concession of mutual competencies (Ehlermann 1995), the harmonization of international competition law on

the basis of national legal system (Fikentscher and Immenga 1995) and the competition of institutional rules through mutual recognition, thus a Cassis-de-Dijon approach with an international interpretation (Nicolaidis 1994).

Multilateral Trading System and Bilateralism. The multilateral trading system is not effectively protected against aggressive bilateral trade policy. The United States and the European Union have set up new arsenals of trade policy instruments. These can be employed as retaliatory measures or market openers without regard for the mechanisms of the world trade order. Thus, with its instrument "Super 301" the USA can react within the shortest period against trade policy measures of other countries. It can independently introduce trade-limiting measures against individual states. Agreed-on preferential trade treatment can be canceled, import restrictions imposed and bilateral export limitation agreements arranged. With the so-called "Trade Defence Instruments" the European Union has created a similar apparatus. With these trade policy weapons, in the sense of result-oriented bilaterally conceived systems (Dornbusch 1990), the two trading blocs have introduced the option to exempt themselves from the rules of the multilateral world trade order (Klodt, Stehn et al. 1994: 119). The danger exists that bilateral measures will escalate and that the multilateral order will thereby degenerate. The additional risk is that a large player like the United States receives preferential treatment by exerting a country-specific market access. Moreover, export interests can reach their targets outside the WTO; they no longer are a counterweight to the protectionist forces (Krueger 1998: 9). This weakens the WTO. An aggressive market opening policy must be integrated into the rules of the world trade order. It is desirable to limit bilateralism.

Multilateral Trading System versus Regionalism. The territorial exception from the principle of most-favored-nation treatment which holds for regional integration schemes (free trade areas, custom unions) conjures up the fundamental danger that the multilateral order will disintegrate into regional blocs (Bhagwati 1992). It is true that past experience suggests that regional integration has not led to significant segmentation (WTO 1995). The regional integration efforts in

Latin America have so far tended to remain weak; the new regional integration in East Asia (APEC) is geared to market integration and is not set to create external barriers. European integration has had attractive power — it has not closed itself to the possibility of accepting additional members. Through the growth of regional integration, cum grano salis, the trade diversion effects at the expense of third parties were, despite protectionistic interventions, probably overcompensated, except for agriculture. The North American Free Trade Area (NAFTA) lacks the internal coherence found in the European Union. In spite of all this, the danger cannot be dismissed that regional blocs could become entangled in an escalating trade war. Thus, in the case of a conflict between the blocs, NAFTA could, even without a de jure common trade policy, tend to reinforce a possible aggressive trade policy on the part of the United States. Moreover, an extended regionalism in Europe, the Americas and Asia, could divert interest away from the WTO and weaken the multilateral trade system. It is therefore important to find mechanisms which multilateralize regional integrations.

II. Rules for New Areas of International Exchange

Besides the trade of traditional goods, new forms of international interdependence have come to the foreground in the international division of labor, among them services and the exchange of factors of production, i.e. of technical knowledge, capital and labor. The movement of factors of production plays an important role in a new paradigm, namely in the context of locational competition among governments.

Services. Manufacturing accounts for 33 percent of the world GDP; in the industrialized countries the share of manufacturing in GDP is much lower, 25 percent in European countries and below 20 in the United States (Siebert 1997). Services make up 63 percent of world GDP; exports of services add up

to 18-20 percent (1993-95) of total world exports (merchandise plus service trade) and have grown at a higher rate than traditional trade in the seventies.

The international division of labor in the area of services relates to diverse phenomena: a service like an international telephone call may actually cross the border ("cross-border supply"), consumers or firms of one country may use the service in another country ("consumption abroad"), a service may be supplied in another country ("commercial presence") or individuals may travel to supply their service in another country ("presence of natural persons"). The diversity of services becomes apparent by the GATT classification list with 7 main categories (and 62 subcategories), namely distribution services, education services, communication services (including telecommunication services, audiovisual services such as motion picture production and distribution, radio and television services), health care services, professional services (including legal services, accounting services, advertising services, architecture, engineering), transportation services and travel and tourism services. In addition other areas and aspects have to be taken into consideration, as in the annexes like the movement of natural persons (temporary stay) and financial services.

A rule system for the international exchange of services should hold for the whole variety of services. Since the phenomena to which rules are to be applied are so divergent, it is difficult to establish an all-encompassing international rule system. A major distinction is between border-crossing and local services analogous to tradeable and non-tradeable goods. For this classification, another distinction becomes relevant, namely between "person-disembodied" and "person-embodied" services (Bhagwati 1984; Klodt, Stehn et al. 1994: 128). Disembodied services are not "embodied" in persons, for example, detail engineering using computer supported programs, the development of software and the adoption of accounting systems. For the international trading order, these services (cross-border supply) are not very different from material goods. Just as commodities are carried by the transport system, disembodied services cross national borders by means of communication media. As a consequence,

markets must be open for them just as they must be for commodities. Border-crossing disembodied services should be treated like commodities.

In the case of person-embodied services (consumption abroad, commercial presence, presence of national persons), non-discrimination can be obtained through national treatment, i.e. equal treatment for foreigners and one's own nationals. With person-embodied services two cases are to be systematically distinguished. First, foreign enterprises may have a competitive advantage relative to domestic enterprises as a result of their organization, technical knowledge or other factors, without lower labor costs being the decisive factor. For example, a foreign insurance company may have a more favorable risk structure. Second, with person-embodied services the competitive advantages may be based on the low costs for labor alone, in which case national treatment of foreign suppliers is especially controversial. But even in this case it accords with the basic concept of the international division of labor that market access must be free. It must be permitted to suppliers from other countries to offer their services at the prices prevailing in the country-of-origin. In both cases, national treatment opens up market access.

The General Agreement on Trade and Services (GATS) established for the first time a framework for notification of existing rules, but it has a long way to go before a rule system for all forms of international services with free market access is fully developed (Snape 1998). Markets are yet to be opened in many respects, barriers discriminating against foreigners or non-discriminatory barriers erected by competition policy will have to be torn down, the product coverage must be extended. So far, these are exemptions to the most-favored-nation (MFN) treatment (favor one, favor all); the conditionality of the most favored nation clause prevalent in services must be extended to an unconditional use. National treatment as a central principle only applies to services where a country has made a specific commitment, exemptions are allowed. Moreover, the pre-

sent approach is to find agreements for specific services.³ This sector-by-sector approach raises the risk that sector specific aspects dominate; it has the disadvantage that it does not sufficiently harness the export interests of the economy as a whole in order to dismantle barriers of trade (Krueger 1998: 405).

Rules for the internationally mobile factors. Besides the exchange of goods and services, factor migrations are a further important form of interdependence between economies. Countries compete for mobile technical knowledge and mobile capital. Factor migrations are interlinked with the exchange of goods in various ways. In the case of technology and non-financial capital, factor migrations can occur through trade in goods or they even themselves represent trade in goods, as with the purchase or sale of user rights, for example, patents. They may, in a comparative-static sense, take the place of movements of goods and thus serve as a substitute to commodity flows, but in a dynamic perspective they can, in the sense of acquired comparative advantage, also decisively influence future comparative advantages and thereby be forerunners for the trade of goods in the future (Siebert 1998b).

In contrast to the somewhat esoteric strategic trade literature, locational competition (*Standortwettbewerb*) may be a more relevant concept explaining the behavior of governments in the global economy. According to this approach, governments compete for the mobile factors of production, namely mobile technical knowledge and mobile capital. The policy instruments the governments can use in order to attract these mobile factors are institutional arrangements, taxes and infrastructure in the widest sense, including the educational and the university systems. If a country succeeds in attracting mobile production factors or in keeping them from leaving the country, the real income for the immobile production factors increases, especially for labor.

³ In financial services a multilateral agreement has been reached in December 1997 with 70 WTO members, other sector agreements relate to telecommunication and the information technology.

Some fear that competition among states will represent a downward spiral in the provision of public goods and that this race to the bottom will degenerate; this fear is unfounded (Siebert 1996a). Even with high taxation rates, non-financial capital will not emigrate if infrastructure capital is adequate and if the immobile labor supply possesses suitable qualifications, i.e. if human capital is well developed. Capital taxation can thus be compensated for (within limits) through the quality of public production factors, especially if these are financed in the sense of the principle of equivalence (or benefit taxation) from taxes or user prices. Rising marginal costs of production with lower human capital and poorer physical infrastructure ensure that locational competition for mobile capital finds a self-imposed lower limit. The better its provision of human- and infrastructure capital, the less a country needs to fear locational competition. Consequently, an appropriate reaction is to let locational competition among governments play. Nevertheless, locational competition may be a new area of interest for the economic world order. Some aspects are discussed in the following.

Property Rights. When countries compete for mobile technical knowledge, property rights become important. These relate to all sorts of intellectual property, copyright and associated rights, trademarks, industrial design, patents, the layout-designs of integrated circuits and geographical indications (like appellations of origin). Issues to be solved (and already included in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)) are minimum standards of protection to be provided by the individual countries, enforcement of intellectual property rights and dispute settlements.

With respect to patents an institutional arrangement must be found which, by respecting property rights, offers sufficient incentives for individual economies to search for new knowledge, but simultaneously does not in the long term bloc possible diffusion of new knowledge throughout the world. Thus, a similar problem must be solved to that of a national patent system. On the one hand, user rights to new technical knowledge must be secure, since otherwise there

will be insufficient incentives to search for and adopt new technical knowledge. This means that property rights to new knowledge must be respected throughout the world. On the other hand, this property protection must not create permanently exclusive positions and make markets uncompetitive. Rather, the diffusion of new knowledge must be possible after a certain passage of time; accordingly time limits should be set on the protective effect of user rights. The optimal duration of protective rights depends among other things on product life cycles and the time frame of research and development phases; this can differ greatly from product to product. Since countries may have an interest in protecting their firms' technological knowledge for as long as possible (although this reduces the incentives for their own technological dynamics), the solution cannot consist simply in mutually recognizing national patent laws. Rather, it may be desirable to set time limits on the validity of national patents. With respect to the other types of property rights such as trademarks and geographical indications there is no necessity to let protection run out.

Rules for capital. International capital mobility limits national governments' freedom of action and changes the opportunity costs of economic-policy decisions. This holds not only for the case when capital should be attracted, but also when its emigration should be prevented. For each economic-policy consideration, for instance about the tax system, about infrastructure and about regulations, the cost-benefit calculus is affected by a higher capital mobility; the opportunity costs of economic decisions are raised if capital can choose between various locations.

One position for the rules on capital mobility is to assume that it is in the best interest of each country to keep capital at home and attract more capital from outside. Each country should structure its institutional framework accordingly, thus provide for the security of property rights, avoid uncertainty about corporate taxes, develop a tax system and a general economic framework and supply an efficient infrastructure which all make the country attractive as a location. An important condition for an efficient international division of labor is therefore

that capital should not be prevented from seeking better opportunities abroad. Otherwise countries would force their savers to invest solely at home. The allocation of savings would then be inefficient. An explicit exit right for savings is thereby a decisive element of the international division of labor. But an exit right is not a sufficient incentive if we consider physical capital which is locked in. Of course one can argue that we can leave capital mobility to the locational competition of governments. But even if in the end it is the host country's responsibility to enhance its own attractiveness, multilateral agreements can make the direct investments of the sending country more secure for its companies, and multilateral agreements may make potential recipient countries appear less risky for direct investments.⁴ Moreover, uncertainty for investment may be a cause for uncertainty in trade. Consequently, an investment code is required which surpasses the trade-related investment measures (TRIMs). It is an open question whether a two speed approach should be recommended for an investment code with the OECD countries going ahead and the WTO following or whether an investment code has better chances to be accepted if it is initiated by the WTO (Krueger 1998: 408). Eventually, an investment code should be administered by the WTO.⁵

Rules for immigration. In all countries citizens should be guaranteed an exit option as a civil liberty. The right of individuals to leave a country, i.e. the exit option, can be interpreted as an important element of a liberal order. The individual should have the opportunity to choose to leave given life conditions which he or she finds unacceptable. A credible right to exit which is respected by the government of the potential country-of-emigration is as a rule a limit on the actions of that government and should represent an implicit control of governmental actions reduce the incentive for individuals to emigrate.⁶

⁴ The argument is analogous to subsidies to old industries which hurt the subsidizing country but can not be ignored in the world trading order.

⁵ On WTO-Plus, see below.

⁶ The openness of goods markets and the mobility of capital reduce the necessity of migration.

The exit option does not, however, imply the right to immigrate into any given country. States define their identity by setting their immigration policy (Hillman 1994). This creates difficult ethical questions which can be more easily resolved if potential countries of immigration — beyond the duty to accept the politically persecuted — are sufficiently open and if regional integrations such as the European Union, although only spatially limited from an international economic perspective, guarantee freedom of movement within their territory. For many reasons labor migration should be replaced by the movement of goods and capital mobility. If a country finds open markets for its goods elsewhere and attracts capital, its citizens do not need to emigrate. The strengthening of an international economic order for the international exchange of goods and the openness of markets reduces the necessity of migration.

Stability in other areas, especially in the financial markets. A rule system for the exchange of goods and services and the free movement of factors of production requires stability in other areas of international interdependence. The rule system of a trading order is not sustainable if other important areas of international interdependence are unstable. Obviously, political stability is a necessary condition for the WTO system (which contributes itself to international political stability). Another condition is the absence of excessive exchange rate volatility and of instability in the financial markets. This can be discussed under the heading of interdependence of orders in the sense of Eucken (1940); it also has been addressed in a more technical sense as the issue of "coherence" among international organizations.

Exchange rate volatility leads time and again to demands for greater stability in the international currency system. It can not be denied that nominal exchange rates are greatly influenced by financial flows and that they can overshoot and thus distort trade flows. No doubt, there can be speculative bubbles. However, the following points have to be taken into consideration:

First, currency convertibility is a very important ingredient of the world trading systems. Restricting the convertibility of currency for foreigners or citizens, setting different exchange rates for different transaction purposes, for example, for goods considered more or less important or for movements of goods and capital, granting privileged access to better exchange rates as in a system of import licenses, and exchange rate protectionism all have negative consequences for the exchange of goods and the efficient allocation of capital. It is hard to profit from the international division of labor if currency convertibility is limited by different countries' political decisions. Especially after the experience of the thirties, countries made efforts during the period of reconstruction following the Second World War to ensure convertibility and liberalize capital movements. Therefore, as a rule the need for currency convertibility is accepted today.

Second, the problem of excessive volatility in exchange rates can be solved by small countries with an exchange rate oriented monetary policy (the Netherlands, Austria) or a currency board (Argentina, Estonia). These countries attach themselves to a country with a stable price level. This has often been successful in the short-term, but in the mid-term it entails great pressure toward monetary, fiscal and wage policy adaptation to the situation in the anchor country. For large countries this solution is as a rule politically unacceptable. In addition, at least one larger country must be the stability leader. A solution for larger countries would be to submit to a system which guarantees stability. Historically the gold standard has been such a system. Countries refrained from employing a national stabilization policy. They accepted fluctuations in output and employment in order to maintain exchange rate stability. Such an approach is not internationally practical today: For one thing, no anchor is visible on the horizon; gold can hardly serve as such an anchor. For another, a readiness to submit to an international rule system is lacking.

Third, other approaches for limiting the volatility of exchange rates must be regarded skeptically: i) It will not prove possible to set up reference zones for ex-

change rates (Williamson 1983), if the conditions for stability are not fulfilled in the individual countries. ii) The idea of a return to a system analogous to that of Bretton Woods ignores the fact that financial markets are now globalized. iii) Throwing sand into the gears of international financial markets (Tobin-tax; Tobin 1978) works against the aim of reducing transaction costs.

Fourth, too often — if not always — the triggers for exchange rate volatility are political ones reflecting economic policy conditions, above all failed stabilization policy, fiscal disorder, misguided monetary policy and also real economic changes. Exchange rate movements thus represent a barometer of fundamental disturbances.

Under these conditions a solution can only consist in each individual country keeping its own house in order and maintaining a stable domestic price level. Then exchange rates will generally remain stable. This approach should be complemented by some minimum agreement on prudential rules for the financial sector in order to shield the overall system against instability.

III. Rules for the Use of the Environment

Globalization also means that awareness of global interdependence increases. This is especially relevant in the use of nature and the environment. Countries are not only interdependent in terms of goods, production factors and monetary transactions; they also influence each other through the use of nature and the environment as receptacle for wastes and emissions. However, a distinction should be made between whether national usage rights are definable for nature and the environment or whether global or border-crossing environmental goods are at stake (Siebert 1998a).

The environment as a factor of national endowment. Similar as countries are differently endowed with capital and labor, there are also territorial differences

in the capacity of nature for absorbing emissions. The absorptive and regenerative capacities of regional environments vary. In addition, heavy population density makes it more difficult to spatially separate residential and recreational areas from environmentally-degrading transport and production activities. The preferences of countries for environmental quality can differ as well. If the environment is an immobile resource factor, the prices for environmental services — as a receptacle of emissions — must also differ between countries. Different environmental scarcities will thus be signaled by different prices. A market economy approach to environmental policy which taxes emissions or establishes prices for environmental services through emission trading is consistent with an institutional framework for the international division of labor. Insofar as the environment is a national endowment factor, prices can express the different environmental scarcities of countries. The environment is then fundamentally not the object of an international rule system.

Protecting health and conserving natural resources. If prices for environmental use are not (or cannot be) applied and other measures such as administrative approaches, emission norms or product standards are employed by countries to protect their citizens' health and life and to conserve natural resources (Article XX of the GATT Treaty), those measures must be non-discriminatory. Non-discrimination requires that in the case of market entry restrictions, regulations through production permits, facility permits and product norms must not give preference to domestic producers and domestic goods. Thus, it should not be permissible, for example, with the aim of reducing health hazards, as in the Thailand cigarette case (1990), to restrict the import of goods or to tax them unless the same measures are simultaneously taken against similar domestic goods. The similarity of the goods plays a crucial role in non-discrimination. Similarity of products should be defined from the demand side, for example, in terms of possible harmful effects, and not from the production side, i.e. from the production technology. As in the Mexican-American tuna fish case (1991), the principle of similarity should not be applied to the production methods (in the tuna fish case methods of fishing which do not sufficiently protect dolphins).

This means that the country-of-origin principle should apply. Non-discrimination should also satisfy the condition that measures taken are in accordance with the proportionality principle. Measures must accordingly be necessary in the sense that otherwise environmental policy aims or the protection of natural resources can not be achieved. As a rule, these aims are, however, better achieved through specific environmental policy measures rather than through trade policy. Thus, if environmental policy employs a regulatory approach to national environments, the non-discrimination and country-of-origin principles should apply.

The territorial principle as a restraint for national measures. Since countries have different amounts of environmental resources and also different environmental preferences, those with stronger environmental preferences should not be entitled to impose their environmental preferences on other countries by means of trade-restricting measures (Siebert 1996b). The thesis that the country-of-origin principle should be fundamentally recognized for national environments is generalizable. If harmful effects appear outside a country's territorial area, countries should not have the right to use trade policy to influence the production methods of a country-of-origin. Also, the protective clauses for health, life and exhaustible resources of Article XX should in the case of national environmental goods be applied only within a country's own territorial area. Countries should thus not have the right to employ unilateral measures to protect the environment in other countries. Thus, trade policy must not be employed to force national preferences on other countries. Any country's environmental policy should not apply to external effects outside its own territorial area.

The environment as a global public good. In contrast to national environmental goods, global environmental goods are public goods with a world wide spatial dimension. In what amount and with what quality these public goods should be produced requires an agreement of all countries. What must be decided on is not just the extent to which emissions should be reduced, but rather also the proper distribution of costs among individual countries. It is difficult to reach

international consensus, because countries have different preferences and because they have different per capita incomes and thus a different willingness to pay. In addition, the cost functions for disposal differ from country to country. Moreover, nations can behave as a free-rider. Thus, implementing the polluter-pays-principle for global goods runs into difficulties. To what extent a stable international environmental framework with voluntary commitments by states can be created under these conditions using compensatory payments is a complex issue and has been the subject of numerous studies.

The consistency of the international trade order and the international environmental order. Environmental policy aims at protecting the natural conditions for life; i.e., it deals with scarcity. An institutional order for the international division of labor attempts to make it possible to increase the prosperity of all countries through exchange, i.e., it also deals with scarcity. Both orders attempt to do away with distortions. Since environmental policy and international trade intersect at many points, the rules of both frameworks should not conflict. The aims are not in principle contradictory, since scarcity must be defined by taking the natural conditions for life into account. If we start from the premise that the valuation of the goods on which affluence is based as well as the valuation of environmental quality must depend on the formation of the national will, a contradiction between both regimes can be avoided.

In the past international arrangements for environmental questions and the world trade order were developed separately and independently. In the future it will be important to pay more attention to the consistency of both orders. The more successfully the environment as a scarce good is integrated into the economic orders of individual countries and the more affluence is defined by taking into account nature and the environment, the sooner congruence of targets will be achieved between both orders. Compared to the administrative approach using regulations, the market economy approach to environmental policy provides more congruence between both sets of rules. The sooner the polluter-pays principle is accepted as a guideline by all countries, the easier it will be to

achieve consistency of the two orders in the case of global environmental concerns. This clearly holds for national environmental goods. For global goods, implementing the polluter-pays-principle has to overcome the difficulties mentioned above like the differences in preferences, in willingness-to-pay and free-rider behavior. What would be needed is a consensus on the conditions under which the polluter-pays-principle can be applied to global goods; this is equivalent to a consensus under which conditions compensations must be used.⁷ Inconsistencies between the WTO-system and environmental agreements should be prevented (Siebert 1996b). The world trading order and groups of countries signing international environmental agreements should not be too divergent.

Consistency on the operational level. Even if the international environmental order and the international trade order must have consistent aims, the rules of both orders must, however, not be contingent upon each other (see below). The set of instruments of both orders must be kept separate. The following orientational points could minimize aim conflicts:

- The rules in the world environmental order and the world trade order should not be mutually conditional. This would cause considerable uncertainty not only in the international division of labor, but also in the production of environmental goods. Institutional orders should not be uncertain.
- Judging from past experience it appears ill-advised to create a temporary waiver for environmental issues as an exception to the world trade order. One reason is that the previously created exemptions for the agricultural and textile sectors have become resistant to change and have led to a permanent infringement of the most-favored-nation principle. If an exceptional regulation is questionable even in the case of internationally declining sec-

⁷ We could also consider a minimal solution which would define improvements in environmental quality (or reduction of emissions) relative to the current state. Since, however, the costs of improving a given state of the environment differ from country to country, acceptance is doubtful. Cf. the discussion on the victim-pays principle for cases of border-crossing environmental problems (Siebert 1998a).

tors, then a similar procedure appears still less desirable for an area that will be increasingly important in the future.

- Trade policy instruments should not be employed for environmental policy purposes. Countries should not have the right to apply their environmental policy outside their own territory. Non-discrimination and the priority of the country-of-origin principle over the country-of-destination principle should be guiding principles.
- The mediation of disputes by the World Trade Organization should be extended to include the environmental domain.
- In the case of global environmental goods a consensus should be developed under which conditions the polluter-pays principle and when compensations should be applied.

IV. Approaches to Strengthen the World Order

The world trading order is permanently in a battle between forces that will weaken it by striving for a larger role of strategic behavior of nation states and between forces that attempt to contain and to push back the non-cooperative behavior of national governments. As an international agreement among sovereign nation states, the world trading order requires mechanisms that stabilize the rule system. We distinguish i) negative incentives, i.e. sanctions, that enforce rule behavior, ii) adjusting existing rules and creating new rules to fill in the void, and iii) positive incentives that improve the acceptance of rules and suggest to join the rule system.

Sanctions. An important mechanism in international contracts are sanctions which can be taken if rules are violated. The WTO-dispute settlement procedure is such a mechanism. Relative to GATT, the dispute settlement procedure has been strengthened. Whereas the ruling of a panel set up to decide the dispute can be appealed before the Appellate Body, the decision of the Appellate Body is binding unless all parties are against its adoption. When the Dispute

Settlement Body (DSB) has adopted the panel or the appellate report, the losing party must either propose a suitable implementation of the report's recommendations or negotiate compensation payment with the complaining party. If there is no agreement on compensation or if the losing party does not implement the proposed changes, the DSB can authorize the other party to impose retaliatory measures such as counter tariffs. The retaliation can occur in the same sector, in other sectors or even in other agreements.

The litmus test of the settlement procedure is whether global players will accept the verdicts of the Dispute Panels and of the Appellate Body. The preliminary experience so far is a tentative yes. For instance, the EU has accepted the WTO dispute settlement panel decision from September 1997 concerning the EU import system for bananas and will change the import rules in accordance with the WTO trade agreement.⁸ The US has lost four cases in the WTO panels and has each time accepted the outcome.⁹ The two major trading blocs have used the WTO settlement procedure frequently. The EU has brought cases to the WTO panels 21 times and the US even 35 times; this can be taken as an indicator of acceptance.

Still an open question is to what extent major players like the US will use their own national sanctions such as the US „Super 301“ from the 1988 Omnibus Trade Act outside the WTO rule system or whether aggressive bilateralism can be controlled under the WTO roof. With an effective dispute settlement procedure firmly in place, there is no longer a need for clauses like the US „Super

⁸ In another case, the US-EU dispute over growth hormones in cattle, on 13 February 1998, the DSB has accepted the Appellate Body Report stating that the EU ban on imports of meat and meat products from cattle treated with hormones for growth promotion is inconsistent with WTO agreements unless qualified scientific studies are forwarded pointing to the health risks of such meat products.

⁹ Three minor cases concern silk shirts, underwear and imported gasoline, and a major case involves Fuji and Eastman Kodak in 1997. Kodak tried to prove that Japanese bureaucrats had given Fuji an advantage over Kodak in the Japanese market, impeding Kodak to get access to Japanese retail outlets. But the WTO panel rejected the complaint, arguing that the Japanese government had not prevented Kodak from competing fairly in Japan.

301". Bilateral negotiations outside the WTO framework and under threat of national sanctions defy the foundations of the multilateral trading regimes. Therefore, developments like the application of the „Super 301" or like the Helms-Burton-Act should be closely monitored and clearly denounced.

Positive mechanisms. Besides sanctions, the world trading order has to contain mechanisms that attempt to strengthen the institutional arrangement and to expand it. One such mechanism is the most favored nation clause which extends reductions of trade barriers to third parties and thus multilateralizes liberalizations. Another mechanism is reciprocity of concessions requiring that the tariff reduction of one country must be answered by other countries (even though the concepts of reciprocity has its roots in a mercantilistic philosophy). Yet another mechanism is to bind tariffs so that the results of liberalization rounds are chiseled in stone and countries cannot easily walk away from reached agreements.¹⁰ We have to look for other such principles which can strengthen the world trade order.¹¹

Filling in the void. The rules must follow the problems and the rule-evading behavior of participants. When new areas develop in the international division of labor an institutional vacuum exists where no rules apply. This void has to be filled, for instance, in the area of the trade of services. Participants may also find ways around the rules, i.e. they may substitute one way of protection by another. An example are quantitative restraints (including voluntary export restraints) as a way around bound tariffs. In the future, national legislation may

¹⁰ A country that wants to raise the bound tariff has to negotiate with the countries most concerned; it may have to compensate for the trading partners' loss of trade.

¹¹ Tumlin (1979) has proposed to give individuals the right to go to the domestic courts if rules of the world trading order are violated. Domestic courts would thus enforce the rules of the international system. I am, in principle, sympathetic to this proposal. However, it requires a clear-cut rule system for the international division of labor which does not exist. Practical experience with courts and labor laws in some European countries suggests that courts have limited efficiency. Moreover, in a time when the rule system for trade has to somehow incorporate environmental issues, the rule system is extremely unclear. The same holds for class action suits in domestic courts.

play a more important role, as in product standards, licensing of activities, administered protection, competition policy, social standards and environmental norms. Care must be taken that the protectionistic content of domestic legislation is contained.

The prospect of an increase in future benefits. An essential condition for the creation and the stability of an international economic order is that the institutional framework must be acceptable to all countries. Therefore, the transition from non-cooperative to cooperative behavior must have an advantage for each country. For this, an important prerequisite is that benefits are expected in the future.

From an intertemporal perspective, the global rule system is a relational contract (MacNeil 1978) in which countries interact along a time axis and in which a strategic gain from non-cooperative behavior today must be confronted with the opportunity costs of retaliation in future periods. Honoring a rule system or violating it must be interpreted as a repeated game in which an agent accumulates or destroys reputation and in which the preparedness of the other agents to cooperate tomorrow is affected by the agent's behavior today. These intertemporal linkages help to prevent renegeing the contract and give stability to the system.

For the stability of institutional arrangements it is therefore crucial that the individual country's cost-benefit calculations should not shift asymmetrically over time into the negative; quite to the contrary, the net advantage for each country should increase over time. If this condition is not fulfilled, there will be an incentive not to honor the treaty, but instead to withdraw from it. It must pay to stick to the rules because there will be a reward in the future. As a practical consequence, when the rule system is expanded, the advantages of membership must be greater for each country than the advantages of non-membership.

Packaging advantages and the single undertaking nature of the WTO. An institutional order consists of several suborders. Inevitably, the suborders are interdependent, in Eucken's sense (1940). A specific suborder may benefit one country more than another, while another suborder may be more advantageous for another country. A greater advantage from a suborder can compensate for the lesser advantage of another suborder. This aspect is significant for the acceptance of new suborders. Packaging advantages into one bundle is a promising approach in order to find acceptance for an international institutional framework in cases in which an agreement on suborders cannot be reached.

The single undertaking nature of the WTO reflects the concept of packaging the benefits arising in different areas of the international division of labor. In the past, plurilateral agreements, introduced in the Tokyo Round, allowed a subset of GATT-members to sign contracts for specific areas.¹² Such a procedure, though easing a contract among at least some GATT-members, represents an à-la-carte approach and entails the risk of fragmentation of the multilateral trading system.¹³ In principle, it can be expected that the single undertaking nature of WTO will strengthen the rule system because it forces countries to swallow less favorable rules in one area if they are compensated by rules allowing higher benefits in other areas. The approach of packaging is also helpful in focusing bargaining when a liberalization round is being concluded.

Preventing institutional domino effects. Packaging benefits stabilizes interdependent suborders. However, this all-or-nothing approach may have its drawbacks and some exceptions may indeed be helpful if they are associated with a process that leads to more liberalization over time.¹⁴ The "offsetting"

¹² Agreement on Civil Aircraft, Agreement on Government Procurement, International Dairy Agreement and International Bovine Agreement (the two last terminated at the end of 1997).

¹³ Langhammer (1994: 11) shows that the à la carte approach led to a large variance in country coverage of individual agreements under the Tokyo Round umbrella.

¹⁴ An analogous question relates to regional integration processes. For instance in European integration, integration at different speeds has been proposed to propel the integration process.

between the advantages of suborders should not be carried too far. If in the course of time the advantages of countries shift asymmetrically in the individual suborders, a fragile structure of acceptance could collapse like a house of cards. To avoid domino effects, it makes sense that the suborders should basically legitimate themselves on their own and not be conditionally accepted.

The interdependence of suborders raises other issues. One is that the suborders may contradict each other. Apparently, they must be mutually consistent. One suborder must not lead to behavior on the part of economic agents which contradicts and undermines some other suborder. As a consequence, suborders must have the same or similar objectives or philosophies. An important example of this consistency issue is the relation between the world trade order and the world environmental order (see above). In any case, the interdependence of suborders must be taken into consideration when an overall rule system is developed.

Another issue is to what extent the withdrawal of benefits from one suborder can be used as a threat or sanction to abide by the rules of the other suborder. In a game-theoretic approach threatening with the withdrawal of benefits from one rule system may be an effective inducement to join (and to respect) another rule system. However, this approach makes one suborder contingent on another order. If one institutional system falls, the other falls too. This raises the risk that the overall rule system is endangered. Therefore, the advantage of threatening with the withdrawal of benefits of one suborder must be weighed against the risk of destroying the overall rule system.

Thus, the question to what extent the withdrawal of benefits of one suborder can be used to establish or stabilize another is open. A possible approach to this question is to explicitly distinguish between two different stages, namely the creation of an institutional arrangement and the implementation of the rule system associated with it. In establishing a new institutional framework, withholding benefits to non-members from another subsystem is a strong sanction

that is positive for establishing the new order. Once an institutional arrangement is established, however, the validity of one suborder should — as a principle — not be contingent on the functioning of some other suborder in order to prevent institutional domino effects. This means that the instrumental levels should be clearly separated.¹⁵ As a rule, economic policy instruments available to an international institution should be limited to specific suborders. Trade policy instruments should not be employed for environmental policy purposes; the instrumental level should thus be modularly subdivided and demarcated.

Drawing a line for which areas no rules should be developed. We have discussed several areas into which the WTO has to be expanded: services, investment, property rights, the use of the environment. Other areas are debated such as competition policy, labor and social standards. Quite clearly, the rule system has to respond to new issues. But somewhere must be a line where the WTO is not and should not be in charge. A more theoretical answer is that the WTO should be concerned about rules for the international division of labor, including trade of goods and services and international factor mobility and global public good environment. A basic principle is that differences in endowment are accepted as the starting point for the international division of labor arbitrated by trade and factor flows. This would exclude protectionism, harmonization and world wide redistribution. A more practical answer is to look at which areas nation states are ready to accept to be partly ruled by the WTO and which new areas of rules the WTO can be absorbed into its rule system without losing efficacy. This practical aspect may require some caution.

Banning distributional aspects from the world trading order. A rule system should allow countries to gain from the international division of labor, but it possibly cannot solve the issue of distribution of benefits between nation states.

¹⁵ This raises the question of credibility. If the sanction of withdrawing the benefits from one subsystem is not the best policy response in the implementation phase, the threat of such a sanction in the phase of establishing the order may lose credibility.

From trade, all countries can gain. Introducing distributional constraints will make the world order ineffective. Such issues including the alleviation of property have to be solved in other ways.¹⁶

Multilateralizing regional integrations. An exemption from the single undertaking nature of WTO is the waiver for regional integrations. Much has been written on the relationship between regionalism and multilateralism, especially on the question whether regionalism is the correct road that eventually leads to a strong multilateral order (Bhagwati 1992). In the last 50 years, regionalism by and large has not been a hindrance to a multilateral trade order. But this is no guarantee for the future. Regionalism can always become inward looking; as a "hub and spoke" agreement (Blackhurst 1997: 531) it can be part of an aggressive bilateralism.

Extending regional integrations with preference zones opens up regional integrations, but it may also strengthen a hub and spoke system where the hubs are the centers of a bilateral world. Thus, preference zones are not a sufficient guarantee of multilateralization. An important precondition for multilateralizing regional integrations is to keep regional integrations open for new members. A strong mechanism for this is for members of integrated regions to grant concessions to third countries, in the sense of conditional most-favored-nation treatment where conditional means that the third countries have to grant similar concessions in order to benefit from the trade barriers' reductions achieved within the integrated region (Klodt, Stehn et al. 1994: 118). This could be done on a voluntary basis, but the WTO could also agree on a time table for multilateralization (Srinivasan 1998). All this is not sufficient. A mechanism must be found by which the barriers erected by regional subsystems of the world are reduced in the course of time; there is no automatic mechanism serving that ob-

¹⁶ This also points out the difficulty which arises when it is attempted to combine the world trading order and an international environmental order for global media. The allocation of property rights for using global environmental media is a distributional issue par excellence.

jective. In the past, the liberalization rounds have fulfilled that task. Possibly, specific criteria should be established for the waiver to be accepted such as applying the Kemp-Wan criteria¹⁷ (Krueger 1998: 23) or allowing only customs unions with the lowest tariff level of members as the common tariff (Bhagwati 1991: 71). Another approach is to link regional integrations by agreements going further than the WTO-system (see below).

Extending to New Members. Enlarging the membership of the WTO-club will generate additional benefits to the old members. The new members will have benefits as well. Enlargement of the membership is therefore an important mechanism to make the system more attractive.

In the long run, the optimal size of WTO is the world as a whole because then all potential benefits of the international division of labor are exploited. In the short run, however, there is one important condition for the extension of membership. The rule system should not be weakened but strengthened when a new member enters. The pending assessions of China and the Russian Federation illustrate that a new member can have a strong impact on the WTO-rule system. New members must accept the rule system as a single undertaking; they must have a track record showing that they have followed the basic WTO philosophy for some time. Moreover, economic conditions in the potential new member countries must be such that the countries are fit to survive in the world market.

Extending the frontier by a WTO-Plus. Another positive mechanism is to allow new problems to be solved by a subset of WTO members. These countries could commit themselves to realize attempted results of the WTO Rounds „more quickly than planned, liberalize more than agreed and employ the permitted exceptions less often" (Sachverständigenrat 1994: 242). Such a WTO-

¹⁷ This requires trade volume with third countries to be higher after than before the customer union.

Plus, a world integration à *deux vitesses*, could advance the integration process in the world economy. This also holds for dovetailing various regional blocs by establishing a free trade zone between the blocs, for instance in a trans-Atlantic economic area (Siebert et al. 1996).

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