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the new Europe's virility. Any criticism of these policies, whether from inside or outside the Common Market, is interpreted by some as an attack on the Common Market itself. Yet the process of European integration must be pursued in harmony with the integration of the world economy as a whole if it is not to incur the hostility of countries which happen to be located elsewhere.

Constructive Approach to European Unity

That is the spirit in which the European idea should be pursued in the 1970s and 80s. Policies must adjust to circumstances which have greatly changed since the 1950s. This means that Europeans must find a more constructive approach to unity than what is tantamount, in an age of increasing interdependence, to provoking economic conflict with the rest of the world. Such a Bismarkian approach to unity is something which Europe is meant to have learnt something about over the last hundred years.

There is thus a need in the EC to develop a political consensus on the maintenance of international economic order that is responsive to the issues facing the world economy. Little headway will be made in that direction, however, if the Commission persists in its obsessive and un-

founded belief that tariff-free trade is impossible unless all conditions of competition are equalised.¹⁹

No trade can take place if all competitive conditions are equalised. This is easily explained. International trade is based on cost differences. There is a wide gulf conceptually between (a) ruling out distortions to competitive conditions resulting from government interventions, which would come under the heading of one non-tariff measure or another, and (b) ruling out differences in competitive conditions resulting from varying taxation, social benefits and company laws. The first is a feasible and necessary part of any attempt to liberalise international trade. The second is neither feasible nor necessary among countries not aspiring to economic and political union.²⁰

¹⁹ In its first draft of the EC's initial bargaining position for the GATT negotiations, the Commission asserted that tariff-free trade is impossible without "international organisation and harmonisation of national policy considerations — for instance, taxation, social legislation and measures to stimulate economic development". See Document COMM (73) 556. (The passage was among those eliminated from the document finally agreed by the Council of Ministers.) Such Commission, or "European", thinking is also reflected in Günther Harkort, *op. cit.*, in the words "the EEC could not join [the USA] in a free trade zone without insisting on moves for the harmonisation of economic policies".

²⁰ The extent to which it is necessary to harmonise policies in order to preserve the economic benefits of tariff-free trade is explored, both theoretically and empirically, in Victoria Curzon, *The Essentials of Economic Integration: Lessons of EFTA Experience*, London (Trade Policy Research Centre), forthcoming.

Trade Liberalisation Round 1973

by Manfred Holthus, Hamburg *

The GATT Minister Conference to be held in Tokyo from September 12 to 14 will be the prelude to a new round of international negotiations about further liberalisation of world trade. Preparatory work of some six years thus comes to its conclusion.

The factual problems to be discussed at the Conference have their background in the actual change of the structure of world trade that has occurred in the late fifties and during subsequent years. Between 1957, the last year prior to the inauguration of the EEC, and 1970 the international flow of goods and merchandise has almost trebled. The distribution of this growth has however been extremely unequal among the various trade partners:

□ as far as the EEC-countries and Japan are concerned, their export has been stepped-up

above average. Both were able substantially to increase their share in world trade;

□ thereagainst, the US have had to face a considerable decline of its share, about equally so as the bulk of the LDCs;

□ the Eastern bloc has about managed to hold its own.

These trends have led to growing tension in the sphere of world trade. Within the group of indus-

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trial countries there has first of all been an aggravation of the controversies between the US, on the one hand, and Japan and the EEC, on the other. The industrial countries as an entity find themselves vis-à-vis more and more weighty reproaches by the LDCs.

An analysis of existing matter of controversy shows that a new round of GATT talks will have to find solutions particularly of the following problems:

- ☐ the application of GATT rules in cases of regional economic mergers;
- ☐ the special taking into account of top-tariff rates when considering further tariff reductions;
- ☐ the increasing importance of non-tariff trade obstacles;
- ☐ the inclusion of agricultural markets in the liberalisation efforts;
- ☐ the deeper integration of the LDCs into international division of labour.

It has to be said at the outset, though, that in spite of intensive preparations the success of the forthcoming, seventh, GATT Round seems by no means a foregone conclusion. For once, to some extent solutions are possible only if GATT principles, as one has known them up to now, will be diverged from. For another, totally new methods of liberalisation will have to be developed.

Regionalisation as a GATT Problem

The regionalisation problem of world trade, though certainly not a new one, again stands in the fore of discussions as a result of the EC's policy of association. The EEC agreements of Jaunde and Arusha, its policy towards Mediterranean fringe countries as well as the offers to Commonwealth countries in Africa, in the Indian Ocean as well as the Pacific and the Caribbean areas have earned the EEC the reproach specially from the USA that it tried to create, with the aid of GATT inconform agreements, a trade zone discriminating against third countries.

Association, a concept not specifically defined in the GATT concept, essentially means the formation of a free trade area as sanctioned under Article XXIV. But the solution proposal of the critics shows that precious little importance only is given in this controversy to the adherence to GATT rules. The EC, so the critics propose, is to refrain from asking for counter-concessions from associated LDCs. This, however, would be clearly in contradiction to Article XXIV, which stipulates

the freeing from all trade obstacles of the "essential part of the trade" between the partners of a free trade area or customs union.

But the transparency of the argumentation does not render the problem's solution any easier. For, in this point, the conflict between original GATT aims and requirements of development policy becomes apparent. The initial angle was that a free trade area or customs union does not only make the trade between the various partners easier but, over and above this, on the strength of a higher level of incomes, also has the effect of creating trade – this being beneficial to third countries, too. As regards the European Communities, which have to be looked upon as the merger of industrial nations, the present rules are therefore fully justified.

But in the case of an economic merger between industrial countries and LDCs, the question comes to the fore as to whether the industrial partner should not, because of development policy considerations, at least temporarily waive the making use of counter-preferences.

Without relevant alteration of Article XXIV such a decision would hardly be realisable. The resulting legal inconsistency would, for one thing, lead to ever more controversies, and, for another, the EC's agreements could hardly be looked upon as of a free trade area nature in the sense of Article XXIV. In this case, other GATT members would have to renounce the right to an application of the most-favoured-nations clause; otherwise the EC would not be in a position to meet its special obligations towards the formerly dependent territories and the industrially little developed neighbouring countries of the Mediterranean area.

So far there is no solution of this conflict in sight. On the eve of the beginning of the GATT negotiations, the European Community invited 42 LDCs from Africa and the Caribbean and Pacific areas to talks and submitted to them an offer of association under the auspices of the Treaty of Jaunde. But the calculation of the Community, too, to win a number of states over for the support of its own position prior to the negotiations, went amiss for the time being. The guests saw their opportunity and declared themselves not prepared for counterconcessions to the EC. It is at the same time doubtful whether, if and when the issue arises, they would be willing to waive their own privileges in the EC markets and possibly join a general preferential agreement.

The problem of further tariff reductions for industrial goods should hardly be less difficult to solve.

It is true, the average level of tariffs is already rather low and the deviations from country to country do not go beyond relatively narrow margins. But there are still pronounced differences in the categories of tariff rates as spread over the entire range of imports. In the US, Canada and Japan, for example, the share of imported goods on which the tariff rate is over 15 p.c. is higher than in the EC. The question therefore arises as to how tariff reductions can be effected in a manner so as to arrive at well-balanced advantages for all GATT partners. A solution is complicated by the fact that the industrial countries' tariff structure, on account of the degree of protection it gives the domestic value added, is such that, for instance, the imports from LDCs carry higher tariff rates than those from industrial countries. At a first glance, the total abolition of tariffs by industrial countries, as favoured by the US and Japan, seems to be the only way out. But against this it is to be said that the LDCs would then forfeit their (admittedly meagre) advantages from the preferences that have been generally introduced by most industrial countries as recently as during the last two years.

Development policy thus makes it necessary for the industrial countries to maintain basic tariff rates in the exchange of goods among themselves. This, however, takes it for granted that also the US and Japan accord the LDCs general preferences. So far, the US made this dependent on EC concessions in the question of association.

In any case, it appears near enough impossible to achieve a balancing of the interests between the great economic powers, EC, US and Japan, onesidedly in the field of tariffs only. Compensations will have to be worked out in the spheres of non-tariff trade obstacles and agriculture.

Improvement of the Protection Clauses

The readiness of GATT members for further trade liberalisation by means of tariff reductions and the removing of non-tariff trade obstacles will depend decisively on whether or not in unforeseeable and exceptional situations appropriate measures for the protection of the domestic economy can be found, and will be applied. The Americans, especially, emphasise this inter-relation.

GATT already now contains protectionist clauses, the most important of which is laid down under Article XIX. According to it, member-states are entitled to take import-restrictive measures for the protection of their manufacturers provided higher imports would entail heavy damage for them. In practice the stipulations of this Article have however not been adhered to. Protectionist

measures once taken have invariably been upheld regardless of their temporary validity only being permitted. Furthermore, the principle of non-discrimination through bilateral arrangements, such as self-restricting agreements, has increasingly been violated. Thirdly, countries taking protectionist measures have disregarded the requirement of prior consultations.

It is necessary in the interest of further liberalisation first of all to help the aspect of time limitation towards new importance. In view of the fact that branches of industry to be protected are as a rule structurally weak sectors of the economy, the tendency is apparent to maintain the protection and thus prevent structural adjustments. It follows that a limited period of protection can be practised only if precise criteria are determined that signalise begin and end of a state of emergency in that particular branch of industry. This procedure could be made easier if permission for the introduction of protectionist measures were made dependent on the prior existence of internal programmes for structural adjustments.

A generally accepted formulation of protectionist clauses is all the more urgent as the possible gain from it would be the facilitating of initial steps towards the abolition of non-tariff trade obstacles. But also in this respect, opinions are diverging. The US demands an adjusting of protectionist clauses to present usage. Thereagainst, the EC pleads for maintenance of present rules and clarification of import criteria coupled with better control.

Abolition of Non-tariff Trade Obstacles

In the wake of accelerated tariff reductions non-tariff trade obstacles have become weightier. Often they are indeed at the hard core of protectionism. GATT has at present more than 800 complaints about impediments to the trade as a result of non-tariff obstacles on its register.

Necessary as their abolition is, it is at the same time a complex matter to find a way acceptable for all involved parties. The magnitude and multitude of the problems complicate a systematisation. Also, it is frequently impossible to arrive at a quantification of impeding effects of non-tariff trade obstacles.

For these reasons, they are only under certain circumstances suitable as counter-concession against tariff concessions. They furthermore partly serve purposes other than trade policy ones, such as for instance the observation of technical, health and security regulations. There is, finally, not unlike the case of tariffs, the necessity of differentiated reductions because of the LDCs' exports to industrial countries being harder hit

by non-tariff trade obstacles than, in the other trade direction, the relevant exports of the industrial countries.

So far, there is a complete lack of positive experience at GATT in the field of the reduction of non-tariff trade obstacles. Also, the American selling price system, whose abolition was decided during the Kennedy Round, still remains in force. On the whole, entirely new methods will have to be devised.

It is therefore recommendable for the forthcoming GATT Round to confine the negotiations to such groups of measures that are taken clearly and solely in pursuance of trade policy aims. In this category belong for example all quantitative restrictions inclusive of self-restriction agreements inconsistent with the regulations for protectionist clauses, the para-tariff regulations such as tariff-evaluation procedures, etc., as well as discriminations in the sphere of public tenders. Thereagainst, obstacles as a result of adherence to differentiated technical, health or security regulations should, right from the beginning, be dealt with at separate negotiations. The standardisation of aims and priorities should be a condition for the harmonisation of measures in these fields — a target which, if at all, appears realisable only in the very long term.

In the aggregate, the prospects for a reduction of non-tariff trade obstacles worth mentioning are not very bright. As recently as 1972, when the subjects for the next GATT Round had already been agreed upon, the Americans took a number of additional measures, such as the "Buy American Clause" and a hardening of the Anti-Dumping Laws that went further than the GATT rules. Even within the EC it has so far not been possible, in the case of many measures of this nature, to come to an agreement about their abolition or harmonisation. The fact is, however, that multi-lateral negotiations are not possible without agreement within the EC.

Liberalisation of the Agricultural Markets

The liberalisation of the agricultural markets will rank among the most important topics at the GATT Round. One reason being that a harmonious balancing of interests in the fields of tariffs and non-tariff trade obstacles alone will be possible to a limited extent only. Another reason is that the whole agricultural problem did prove to have a key position already during the discussions of the last few years. Apart from the traditional export countries of agricultural produce such as the US, Canada and Australia, particularly the LDCs have a pronounced interest in the solution of this complex of problems. Disregard-

ing oil exports, more than half the exports of the Third World consist of agricultural products.

However, at present in the trade with agricultural products of the moderate zone and with competing tropical produce, international competition is in the industrial countries as good as non-existing as a result of national protectionist measures. And, after all, there are principally two different methods applied: the EC system of closing the frontiers against imports with simultaneous price guarantee, and the system formerly exercised in Great Britain, and more recently gaining ground in the US, of direct payments to the farmers and a tendency to open frontiers. In each case the ensuing production surpluses are exported with the aid of subsidies. In this way, not only do the countries with predominantly agricultural structure of their economy find the greatest part of their markets blocked but they even have to face additional competition.

This problem can be solved only in the long run by internal structural adjustment measures offering the farmers in industrial countries the still often lacking alternative income possibilities. Only thus will better trade facilities in this sector become possible. It is very probable that the GATT negotiations will be concentrated upon the intensity of such measures and the speed with which they would be carried out. It is hardly likely that other possibilities will show themselves because no other subject of this GATT Round has, among the main participants, brought to the fore as little cooperation as the subject of agriculture. Invariably the EC calls each proposition for a change of its agricultural policy an interference in its internal affairs.

Global Compensation?

Never since the formulation of GATT has it been so complicated to work out, and agree to a way for the upholding of the principle of reciprocity. It is therefore not surprising that the GATT members have in spite of lengthy preparations not yet been able to agree on an unanimous statement for the prelude in Tokyo.

The question therefore arises whether a solution could not be found by way of a global compensation in the fields of trade and monetary issues. The link between monetary and trade-political progress — so laboriously mastered in Rome prior to the Realignment — thus is again on the agenda. The US has even extended it by the redistribution of defence burdens. This certainly does not make the solutions any easier as long as each partner harpens on the safeguarding of even the smallest advantage and, in doing so, overestimates his own power.