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Removal of Tariff Barriers

— a First Step

When early last month the final step to the general removal of tariffs with regard to the goods exchange between the new and the old members of the EC as well as the EC and the remaining EFTA-members was taken, this marked an epoch in trade policy. A free trade area encompassing almost the whole of Western Europe, with the EC countries forming its nucleus, has become reality. This is the crowning achievement in a process which progressed over three decades starting arduously after the war with gradual dismantling of quantitative import restrictions and a multilateralization of international payment transactions accompanied by various setbacks.

The significance of such a union becomes conspicuous when it is taken into account that more than a quarter of world trade turnover falls to the share of intra-European trade. As regards the participating countries themselves, on an average, even two thirds of their total foreign trade consist of transactions with each other. If for these home market-like conditions can successfully be created, a market will be set up which, in size, is comparable with that of the US: its GNP is about the same and its dependence on the business cycles of the outer world is, taking all its countries together, hardly bigger than that of the US. In the United States, exports claim barely 7 p.c. of its GNP, while for Western Europe the corresponding share of sales to third countries is only by one percentage point higher.

If, in spite of all this, there is hardly any jubilation in Western Europe over these achievements, there are several reasons for that. One of these reasons, without doubt, is the fact that the abolition of tariffs makes it so much more evident how many smaller trade barriers exist which, in their combination, are not insignificant at all. Among these obstacles are, in the first instance, customs duties on a number of sensitive products, which will be retained up to the mid-eighties, and the restrictions on free trade which result from the agricultural market regulations. Over and above that, for the time being, the procedure of customs clearance will not be simplified very much. This follows from the continued national sanitary regulations and technical standards, but also from different taxation laws as well as from the fact that the EC and the individual EFTA countries have retained different external tariffs in their trade with third countries, which makes certificates of origin indispensable. Even if no administrative protectionism should be operated in this form — an assumption which, following recent experiences, is certainly on the optimistic side — there remain still several long steps to be done until conditions like those prevailing in a national market will be reached.

Admittedly, efforts for pushing progress further on are certainly being made. But it is equally obvious that conditions for operating successfully on such lines are no longer as good as before. The knowledge about this, too, may dampen down rejoicing over the kind of progress just now achieved. For it is true that unification of Western Europe is, at present, marking time. Since the EC has been enlarged, the internal multifariousness of interests has been widened, whilst community solidarity among new members appears, in part, still underdeveloped. In addition — and this may also serve as an explanation for the internal difficulties prevailing within the EC — the deep drop in employment figures in the course of the recent recession has made it more difficult to work for further dismantling trade barriers

everywhere, and there exists even a threat that individual nations may fall back into a higher degree of isolation. It is only too significant that the "trade pledge", i.e. the promise to remain abstemious regarding protectionist measures, has played the most important, concrete part in the deliberations during the recent OECD meeting in Paris.

The belief that abstention from violations of the agreed rules on commercial policy constitutes already a success, after the liberalization which obtained during past decades, must certainly be seen as an alarming symptom. On the other hand, looking back into the more distant past, say the "thirties", demonstrates strongly that, during periods of permanently low employment, beggar-my-neighbour policies have been a widespread reaction. Against this background, it was not at all certain up to the recession of 1974/75 that, given such a strong rise in unemployment as experienced in recent years, there would not rapidly spring up a wave of protectionism. As it is, this wave did not materialize over a wide area, and in Western Europe, the remaining internal tariffs have been done away with. Even though, in a number of countries and industries, calls for increased protection against imports could be heard, actual developments testify to the greater strength of insight into mutual dependence. This is valid in as far as countries are afraid of trade reprisals that might hit their own exports. Moreover any violation of the generally-adopted rules of free trade would involve the risk of losing one's claim to international solidarity aid, whose network has been successively strengthened in the post-war period. In the past years unemployment problems were often accompanied by balance of payments difficulties. In such cases the conditions to which the international organisations have tied their credit support would come into operation and would not leave any scope for protectionism.

In Western Europe, these general constraints are being reinforced by the manifold and specific ties and obligations which exist above all within the EC. In view of the lack of further notable progress in the other fields of integration, the promotion of foreign trade connections has even gained in importance. Even though this does not yet result in the creation of conditions germane to an internal market, the major part of effects thus intended in relation to progress in the international division of labour, higher productivity and higher living standards can be brought about. In the post-war era, this process has acted as one of the important stimulants to the extreme buoyancy of the economic upswing in Western Europe. It is precisely this experience, however, which poses the question whether, after the removal of tariffs within Western Europe has been largely completed, there will in future be a lack of one of the most decisive stimuli to economic dynamism. In the short term, this would probably be an over-hasty assumption, especially as the dismantling of tariffs which took place in recent years between the former EC and the former EFTA has so far only had a moderate influence on the trade flows and production sites. In the longer term, however, such a problem could arise already before the full gains of an all-European market can be reaped in case integration does not proceed beyond the abolition of internal tariffs, and the other obstacles in the way of optimal economic division of labour in the European area are not swept away.

It is obvious that these difficulties, especially during a period of strong under-employment, in making it clear how profitable a strengthening of the international exchange of goods is, will affect less acutely the intra-European trade than the external relations. This is, for example, indicated by the protectionist attitudes of some European governments when re-negotiating the Multi-Fibre-Agreement, and by the protective measures taken against various Japanese products. Taking each individual case separately, there may be interests affected that are worthy of protection. But, on the side of all interested parties, a big part is also being played – especially in comparison with the situation inside Western Europe – by a certain lack of communication and, consequently, of mutual understanding. It is certainly true that such inhibitions must be overcome in a similar way as it was necessary regarding the obstacles to integration inside Western Europe, if only in order to obviate the danger that, in the end, a new protectionist obstacle race might be run in which there could be only losers.

Günter Großer