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Europe's Interest in Free World Trade

by Wilhelm Haferkamp, Brussels *

Four years have passed since the oil price shock but the world economy has still not found its way back to its accustomed rhythm. The prospects for growth are faint, not in Europe alone but in the USA and in Japan as well. We are farther than ever from the objective of full employment. That the engine driving the world economy is still not running smoothly appears most clearly from the development of the international trade. In 1969–1973 the volume of world imports rose on average by over 9% a year – this year and probably also next year it will not rise by more than 6%. The international trade used to be a crucial growth factor and stimulant. It seems to have lost much of its dynamic force.

This cannot be entirely fortuitous. For these signs of fatigue in world trade are paralleled by a diversity of tendencies all with the aim or at least the result of impeding international trade. That recent months and years have witnessed a renaissance of protectionism is no longer a secret. It is deplored by businessmen and politicians, and we have heard solemn summit avowals of resistance to such ominous tendencies. The verbal onslaught on protectionism however is mostly unequal to the reality of the numerous attempts to curtail the free world trade. The basic pattern is usually the same everywhere: loud regrets at the growing strength of protectionist tendencies are coupled, almost at the same time, with demands for the protection of one industry or another which has allegedly for this or that reason a special claim to protection.

Attitude of the EC

The attitude of the European Community to the problem of protectionism has – we must be frank – not been unequivocal. European politicians have pleaded convincingly for the principle of free world trade but even the formerly immaculate liberalism of the Community has of late looked a little shop-soiled. The textile policy of the Community for instance can hardly be presented as a contribution to the fight against protectionism.

This textile policy seems indeed to confirm the truth of the "oil slick theory" which says that one act of dirigisme inevitably leads to another. The

surveillance of stringent import quotas necessarily involves an elaborate and complicated system of certificates of origin. I am afraid that if not only the economic but the political aspects of this policy were subjected to a cost-benefit analysis in regard to the developing countries and the Community associates, it would definitely show a negative result.

It may be remarked in passing that it is most regrettable that such policies are attributed to the Community – to "Brussels" – when the decisions of the Community are in reality nothing else but the end result of sectoral interests and demands from one or several member countries, which is also the case in other fields such as the steel policy or the agricultural policy. In the case of the textile policy the Commission can at least claim that it has prevented worse things happening.

That the Community has an interest in fighting resolutely against protectionism and preserving and strengthening the free world trade seems to me obvious. So obvious indeed that one must sometimes wonder why European industrialists and politicians are playing so lightheartedly with the protectionist fire. It should be common knowledge by now that the Community is the biggest trading partner in the world and more particularly that the export trade accounts for a much larger proportion of the GNP in the Community than, say, in the United States or any other important trading country. A curtailment of world trade would therefore hit growth, employment and prosperity in the Community much harder than in most other countries and regions.

Interest in Open Trade Frontiers

One need only look at a few sectors including some which are called "sensitive" and are for this reason often said to require or known to practise protective measures to see that the Community has a manifest interest in keeping the trade frontiers in the world as wide open as possible. In 1976 the Community for instance still exported more than twice as much iron and steel (\$ 9.5 bn) as it imported (\$ 4.2 bn) even though its imports have risen very much faster in recent years than its exports. This was not a matter of trade policy but primarily the result of a worsening of the com-

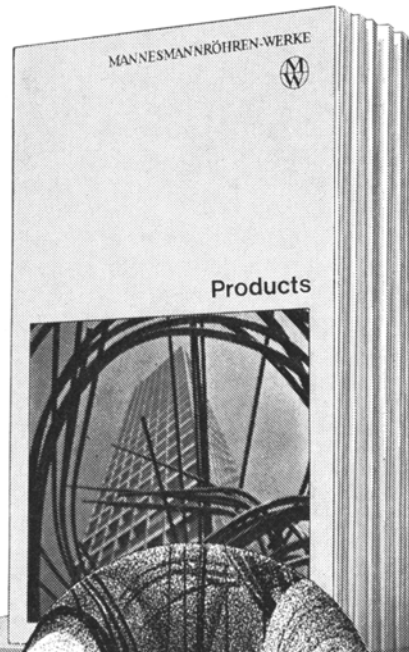
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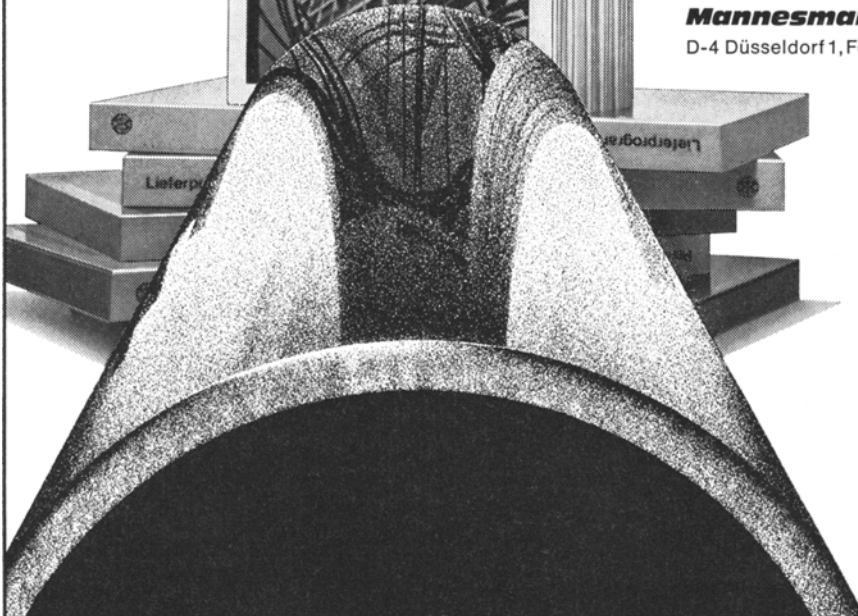


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petitiveness of the European steel industry and – probably irresistible – structural changes in the world market for steel.

In the shoe sector the Community is also a net exporter. The export volume of nearly \$ 1 bn compares with imports of about \$ 700 mn. The figures for the textile sector are also interesting: while the Community is a net importer in this field, its textile exports of \$ 7.6 bn in 1976 were not so very much lower than its imports of \$ 9 bn.

Drawbacks of Protectionism

To shut off some markets and sectors would not only be foolish from the point of view of trade policy but be a most unsuitable and indeed injurious instrument for industrial policy. We must avoid import restrictions and the retaliatory measures of others to which they would inevitably give rise. We have also to save certain industries in Europe from "ossification". It has been proved beyond doubt by all experience that necessary structural changes do not take place if an industry is sheltered indefinitely by a protective wall but only if it remains exposed to world market competition. The situation of the German textile industry which has made an admirable effort in the past years to adapt itself to changing conditions is in my opinion conclusive evidence for this thesis. I am firmly convinced that this industry would find itself today in a far worse position if the Federal Government had responded more readily to earlier requests for protection and thereby relieved the textile industry of the need for adaptability.

A dominant feature of the world economy at the moment is the reluctance of consumers and investors to commit themselves. It is all the more important for world trade in the present situation to avoid as far as possible restrictive measures which unfortunately tend to spread and to escalate. Not only does interference in the foreign trade by one country tend to reduce the demand, growth and thus employment in the partner countries but its multiplier effects are felt in the entire world economy and thus also by the state which resorted to such action in the first place.

Deflection of these multiplier effects in a positive direction will strengthen the foundation of the expectations and confidence of investors and consumers in the future development of the world economy. Any step towards protectionism on the other hand will impair the expectations in the world of business and thereby weaken the investment propensity and the prospects for more growth and employment.

Importance of the Tokyo Round

An early and successful conclusion of the current round of GATT negotiations is of such importance for the efforts to halt the contractive tendencies in world trade that it can hardly be overrated. We do not believe that the Tokyo round is no longer necessary because of the existing economic problems. On the contrary. The preparatory work has been given a fresh political impetus by the agreement of the United States and the European Community at the middle of this year that the Tokyo round shall definitely be brought to a successful conclusion in the first half of 1978. After a period of protectionist relapses there are today better prospects for a step forward than there existed a few months ago.

A positive result of the present round of negotiations is not yet assured, however. The negotiations have been difficult and, needless to say, they will not become any easier in the crucial final phase. It is no secret that the negotiating parties have different interests and problems and therefore take different positions. On the tariff issue the United States is known to be more interested in general reductions and the Community in tariff harmonization and avoidance of exemption lists. Nevertheless it can be said that the parties have moved fairly close to a possible compromise.

In other areas covered in the present round of negotiations there has also been a preliminary clarification of important points. It is common knowledge that the non-tariff barriers to trade are a large and thorny subject. Progress is however possible also in this field. The recurrent intensive talks between the US Special Ambassador for

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Trade Negotiations, Strauss, and the Commission have done much to take the sting out of the discussion on the treatment of farm produce in the GATT negotiations. The Americans are aware that the Community cannot make its agricultural policy a matter for bargaining, and act accordingly. On this basis it has now been possible to hold substantive talks. Intensive discussions have also taken place on tariff value determination, subsidies and compensatory levies, standards, government purchases and protective mechanisms, all subjects of great though not cardinal importance.

Together with our American partners we have entered into a firm commitment to do everything in our power to complete the current talks by January 15, 1978. On the basis of these results it will be possible to start on the final phase of the negotiations which, it is hoped, will be concluded next spring. Considering the wide range and intrinsic difficulties of the complex issues involved, this is a very ambitious time-schedule. In the present situation however no effort must be considered too great for the reinvigoration of world trade and the world economy.

Protectionism – a Danger to Our Prosperity

by Otto Wolff von Amerongen, Köln *

Observers of the present deterioration of the climate of world trade may find it puzzling that quite substantial rates of real growth are still being recorded in international trade even today. What a dynamic force must have been developed by the business world – and the often vilified multinational corporations in particular – in the last score of years if such trade figures were still attainable despite many and mounting obstacles.

The development of the Third World – a task tackled with such great hopes – has suffered serious reverses however: no more than a dozen countries have been able to get away from a state of poverty and grow into world trade partners.

The constraints operating on Western trade are all the more serious. Signs of a distinct worsening of the climate of world trade began to show while the heads of government of the major industrialized countries of the West held summit meetings in Rome and London and at these and the following conference of OECD ministers averred their faith in world trade and in abstention from trade restrictions and additional export subsidies which are their correlative. More and more attention is being paid to requests for protection by the industries most closely involved in international competition although it is known that there is no causal connection between increasing trade exchanges on the one hand and decreasing growth rates of the GNP and negative repercussions on the labour market on the other.

The longer the governments of the Western democracies are exposed to the pressures of unemploy-

ment, the louder become the voices of those who, distrusting the ability of the economy to right itself and regulation by market forces, are clamouring for government intervention. Faced besides with continuing substantial differences in inflation rates and balance of payments problems which are only beginning to abate, some of our contemporaries are evidently of the opinion that, contrary to the public pronouncements of some states, protectionist measures against inconvenient imports are a better choice than world-embracing trade exchanges.

Subtle Forms of Protectionism

It is worth noting that most governments are trying to make their protectionist measures as unobtrusive as possible. "Subtle" forms of protectionism are the fashion today as never before. They include appeals to buy goods made at home whenever possible as well as inordinate recourse to in principle acceptable administrative regulations on foreign trade. The most topical example of such practices is perhaps the attempt by one member country of the EC to exercise "control" beyond the protective measures of Art. 115 of the EEC Treaty by insisting on certificates of origin for textiles coming in from other EC countries. The gravity of such interference with free trade in the Common Market will be clear to all who are acquainted with the large variety of textile products traded now

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