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How Can the Crisis of Liberalization Trade be Overcome?

By Eckard P. W. Minx, Berlin*

Since the seventies the existing order of international economic relations has been exposed to ever stronger pressures¹. Access to foreign markets must once again be regarded as a scarce commodity, since the far-reaching removal of tariff barriers has been more than compensated for by non-tariff restrictions.

The industrialized countries have to ask themselves quite generally whether the laissez-faire model of international exchange is still compatible with their individual national structural and employment objectives. In the absence of a new order there is a growing danger of economic warfare in international trade relations. Even now the states follow the motto that everybody does what he wants to do, and nobody does what he ought to do. All are joining in the free-for-all which reflects the loss of a basic consensus on common objectives, a loss which is associated with the general politization of the national and international problems² and calls for an unbiased reconsideration of the options available. A way out of the difficulties was suggested recently by K. W. Rothschild: "If we succeed – in theory and in practice – in elucidating the place of foreign trade in the dynamic world of today and abstain from squeezing it into an oversimplified 'free trade versus protectionism' schema, we may yet find that a moiety of orderly foreign trade regulation is, in the final analysis, internally and externally more productive than the traditional free trade dogma"³.

Aspects of the Reintegration Process

Let us first look at the past in order to focus on a few cardinal – but hitherto underrated – aspects of the reintegration (liberalization) process and to derive from the structural changes in the world-wide economic development process some clues to the future international cooperation between the states. It is crucial in this context to widen the hitherto pursued

"negative" liberalization policy by adding "positive" competitive concepts and regional aspects⁴.

The undeniably successful liberalization policy after the end of World War II which manifested itself in an unprecedented growth of trade ramifications between the OECD countries led to increasing interdependence between the states. This "success" has hitherto been attributed chiefly to the globally designed reintegration (liberalization) policy and the shaping of its regulatory framework by the IMF and GATT⁵. According to this interpretation the road of international economic cooperation is smoothed by advances towards liberalization such as the Bretton Woods agreement: steady removal of all obstacles to international relations becomes an axiom of regulatory policy. Following

¹ A few central problems were pointed out by Lorenz three years ago in this journal. Cf. D. Lorenz: On the crisis of the "Liberalization Policy" in the Economics of Interdependence, in: INTERECONOMICS, 13th year (1978), No. 7/8, p. 169 ff.

² On the politization of the problems cf., e.g., the study by H. Maull: Europe and the World Energy, London 1980, passim.

³ K. W. Rothschild: Außenhandelstheorie, Außenhandelspolitik und Anpassungsdruck (Foreign trade theory, foreign trade policy and the pressure for adjustments), in: Kyklos, Vol. 32 (1979), p. 57 f. B. Gahlen uses a similar argument in a different context: "It may seem paradoxical but if we insist on a pure market solution, we end up with an interventionism which is not wanted by anybody." B. Gahlen: Strukturpolitik und Soziale Marktwirtschaft (Structural policy and social market economy), paper read at the plenary session of Verein für Socialpolitik in Nuremberg on Sept. 15-17, 1980, quoted from IIM/dp 80-44, WZB, Berlin 1980, p. 6.

⁴ Cf., for details, E. Minx: Von der Liberalisierungs- zur Wettbewerbspolitik. Internationale Wirtschaftspolitik zwischen Industrieländern nach dem Zweiten Weltkrieg (From liberalization policy to competition policy. International economic policy between industrialized countries after the second world war), Berlin, New York 1980, Chapters I, III and IV.

⁵ Cf., e.g., G. Curzon, V. Curzon: The Management of Trade Problems in the GATT, in: A. Shonfield (ed.): International Economic Relations of the Western World 1969-1971, Vol. 1, Politics and Trade, London, New York, Toronto 1976, p. 194.

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Tinbergen and Pinder⁶, this will be described here as a "negative" liberalization policy to emphasize the non-obstruction aspect. Whether the "negative" reintegration policy was really as successful as alleged is in my opinion open to question.

Clues suggesting a more differentiated explanation of the liberalization success emerge from a closer examination of the reintegration process. Such an analysis reveals that the much praised multilateral liberalization by the IMF and GATT has done much less for the expansion of world trade and international relations than is commonly asserted. Of more crucial import were a number of growth factors which had little to do with the liberalization, and the success of the globally designed world trade liberalization was in no small measure due to the achievements of the regional variant (EEC/EC). A few notes may be usefully added:

□ *Regional Integration*: The regional integration and liberalization component originated, one might say, in the shadow of the ideals of the Bretton Woods system. Under its aegis the greatest, though regionally limited, liberalization successes were achieved. By performing the functions of a "harbinger of integration" in the world economy the regional integration contributed to a most important modification of the international bargaining structures. By enabling Europe to act more and more independently in international economic negotiations it created in time a counterweight to the hegemonic position of the USA. The countervailing power which had accrued to the EEC/EC, was crucially important for the liberalization successes in the Kennedy round⁷. The advances in the Tokyo round were also primarily due to the prior reconciliation outside the GATT of the mutual interests of the partners in what M. Camps has called the "golden triangle" – the USA, the EC and Japan.

Propitious Circumstances

□ *Pent-up Demand and Reconstruction*: The distinguishing feature of the period from the end of the war to the mid-sixties was the – previously undreamt-of – steadiness of the growth process in spite of differences between individual countries. Its determinants were the existence of a large pent-up demand, the process of reconstruction itself, economic policies favouring reconstruction, the need for modernization, continuous advances in scientific and technological innovation, and – last not least – the coaction of all these factors⁸. Moreover, growth and

liberalization must be viewed as an interdependent process. A by and large liberal growth and reintegration orientation proved practicable on the national and international level because the export expansion had the effect of accelerating and stabilizing national growth. This in turn made further liberalization advances more acceptable. International aid measures like the Marshall Plan reinforced the general trend. When later on one of the interdependent factors for liberalization weakened because of the slackening of the growth tendencies, problems arose also for the efforts for and the status quo of liberalization.

□ *Intrasectoral specialization*: The shift towards high-technology products (growth industries) and the exchange of differentiated goods between industrialized countries was of crucial importance for the expansion of the international trade relations. Intrasectoral specialization based on product differentiation and preference diversification laid the foundation for a "prosperity-induced" (intra-industrial) trade which probably accounts by now for more than 50 % of the goods exchanges between OECD countries. Two considerations are of particular significance for the interrelation between intrasectoral specialization and post-war reintegration policy:

(1) Intrasectoral specialization facilitates the adjustment process and reduces transformation costs because corrections of national production structures are no longer necessary between different industries but only within them. This works – internationally and regionally – in favour of a policy of integration⁹.

(2) The international trade diplomacy in the framework of GATT and the regional integration in turn have created favourable conditions for the process of intra-industrial specialization¹⁰.

The present situation in the world economy is marked by a diminution of market gaps and substitution opportunities and, with the potential for innovation being not unlimited, a concomitant increase in aggressiveness in competition while the growth trend is slackening. Under these circumstances it can hardly be taken for granted that the favourable coincidence of mutually supportive intrasectoral specialization and

⁸ Cf. on this point M. M. Postan: *An Economic History of Western Europe 1945-1964*, London 1967; J. Cornwall: *Modern Capitalism. Its Growth and Transformation*, London 1977.

⁹ Cf. H. G. Grubel, P. J. Lloyd: *Intra-Industry Trade*, London 1975, Chapters 8-10; G. C. Hufbauer, J. G. Chilas: *Spezialisierung von Industrieländern. Umfang und Auswirkungen (Specialization of industrialized countries. Its extent and effects)*, in: *Probleme der weltwirtschaftlichen Arbeitsteilung*, Schriften des Vereins für Socialpolitik, New Sequence, Vol. 78, Berlin 1974, p. 10 f. and 14 f.

¹⁰ Cf. G. C. Hufbauer, J. P. Chilas, *ibid.*, p. 7.

⁶ Cf. J. Pinder: *Positive Integration and Negative Integration: Some Problems of Economic Union in the EEC*, in: *World Today*, Vol. 24 (1968), p. 88 ff.

⁷ Cf., e.g., A. Shonfield: *International Economic Relations of the Western World: An Overall View*, in: A. Shonfield (ed.), *op. cit.*, Chapter II.

liberalization will continue over the longer term. The consequences of a change in this respect for the extent and pattern of international relations are at present quite unpredictable.

Financing Liberalization Progress

It is a paradox of the globally designed reintegration that its agents (IMF and GATT) carried special "weight" at the very time when their actions ran counter to their regulatory principles. That this could happen at all is mainly due to the intrinsic inconsistency and inadequacies of the system. This showed especially clearly in the monetary sector. As symmetric adjustments were not compulsory under the international monetary system and neither internal nor external adjustments were obligatory in the individual economies, the supply of international liquidity, often uncontrolled and unregulated, was used to put off adjustive measures. The imbalance system thus operated through its financing facilities in favour of liberalization but these methods caused the system in the end to break down. As for GATT, the situation was somewhat different. The intention was from the beginning to give the system as much flexibility as possible and to keep organizational constraints to the necessary minimum so as to extend, or at least not unduly limit, the scope for economic policy decisions by the contracting parties. In practice however the "soft" GATT policy on competition, relying solely on – inadequate – safeguard and escape clauses, as a "safety net", never played a major role in the operation of the system. The result was that protective measures were to an increasing extent either introduced unilaterally or negotiated bilaterally – both outside GATT.

The situation in the post-war period, brought about by a conjuncture of fortuitous circumstances, was all in all rather synthetic. A reassessment of the constructive role of GATT and IMF, and by implication the reintegration policy in general, is called for. Both organizations were important but their influence on the system was not nearly as great as is usually assumed. They drew sustenance from the prevailing basic growth climate, their own inadequacies and assistance by other organizations (OEEC/EPU) and regional self-aid by individual states (EEC/EC). It cannot be proved conclusively that in the absence of institutional safeguards for liberalization these growth factors would have sufficed to bring about the same measure of international economic expansion and integration as was achieved by the "organized world economy" after the war but the obvious importance of growth factors

which operated by and large irrespective of the liberalization contributes to a more realistic view of the role of "negative" liberalization.

The state of international relations has been profoundly altered by the slowing growth since the sixties, the oil shock and the economic recession following it, the shifts in the balance of political power and other energy-induced or -affected developments in the late seventies. The slowing of growth was bound to be attended by a transition from the relatively simple growth policy to a much more demanding competition policy (especially in the macro-economic area) as the contraction of the opportunities for expansion, procrastination in dealing with (sectoral and regional) structural problems, heightened interdependence and the previous "successes" of liberalization policy in regard to tariffs gave rise to an increasingly severe, but also – as shown by the growing protectionism – increasingly perverted, competition between the various states. International cooperation which had seemed to be assured because of its alleged institutional safeguards through the IMF and GATT, ran, in fact, into a profound crisis of confidence into the economic system which would have been thought almost inconceivable. Among the victims was what was left of the intellectual consensus on the rules and principles of the international order.

Structural Determinants

Why has the fiction of a free and harmonious world community again proved illusory in the long term? The causes of the crisis are to a large extent inherent in the Bretton Woods system and the policy of "negative" liberalization. Other reasons for it are to be found in the economic and political changes intrinsic in the development process:

□ *Leading nation:* The liberal international economic order, which had been conceived without regard for political or economic power and free from economic control, functioned only as long as one country acted as a helmsman for the system. When the USA, which was the "leading nation", interpreted the rules of the system more and more signally in its own favour, the community of interests between the partners was thereby destroyed. A showdown became eventually unavoidable; the monetary decisions of the USA in 1971 (the Nixon shock) were the first milestone.

□ *The problem of antinomy:* The aims and means of national economic policy, which since Keynes had characterized the internally-oriented economic control, were bound to clash with an order of international

relations that was designed on free trade lines. The outcome of the conflict between national autonomy and international division of labour was in great measure determined in advance by the denial to the IMF and GATT of any regulative powers beyond those "voluntarily" conceded by the states. Sets of national objectives became factors shaping the international system. "Since free trade no longer leads to full employment, there can no longer be any free trade without full employment."¹¹ In the first years after the war the largely self-sustained growth process had, in conjunction with the progressive liberalization, made it possible to evade the threat of a conflict between multilateralism and national claims to autonomy. Growing interdependence due to external liberalization, on the one hand, and increasing demands on the national states at home, on the other, made it more and more difficult, and in the end impossible, to evade the problem. In a wider sense the antinomy problem is fronting for the sovereignty problem of the modern national state.

□ *Sovereignty*: The increasing international integration and the internationalization of production limit the scope for autonomous action by the national states. This "relative evaporation" of national potentialities in the sphere of economic policy occurs at a time when more and more demands are addressed to the national states, especially in the sphere of social welfare policy¹², and the election rhythm makes it imperative for governments to meet such demands. The result is that because of its – often selfimposed – obligations the social welfare state finds it increasingly difficult to waive sovereign rights for the sake of international principles unless it is offered guarantees or active support for its national policy in return for the relinquished rights.

□ *Economies of interdependence*: The "economies of interdependence" (Cooper) have a bearing on the described "macro-economic dilemma" situation. After 1945 interdependence was the key item on the agenda of international economic relations. The "attractive" side of greater integration, and especially the increased opportunities for specialization and the concomitant gains in economic efficiency, were readily accepted. As the reconstruction and liberalization process gathered momentum, however, the "sensitive" side of integration manifested itself more clearly by the transmission of

external disturbances and impairment of the efficiency of national macro-economic policies. At a time when economic issues more and more tend to become matters of high politics¹³ this creates an unmanageable conflict potential. A number of global changes¹⁴ have occurred with the result that the interdependence can no longer serve as a mainstay of the efforts for political security as after the war when because of the conflict between the systems economic integration chimed in with the political intentions. Increased integration is today viewed as a hindrance rather than an asset while the military alliance has been promoted to a new role of guarantor of economic solidarity¹⁵.

Economic Defence Lines

The values of the system seen as a whole differed during the entire post-war period in crucial aspects from the economic conceptions of the participating states. The outcome in the medium term was a policy of avoiding adjustments – by use of financial facilities – and over the long term a recourse to the most diverse variants of protectionism. This was prompted by the unbalanced concept of a "negative" reintegration policy which did not satisfy the national, internally-oriented objectives of the integration partners and brought the states face to face with mounting demands arising from progressive liberalization but did little to help them to overcome the attendant problems.

The end of the reconstruction phase (about 1962) brought increasing evidence of structural balance of payments disequilibria. The competitive conditions were distorted by more and more harmful "false" or "unfair" exchange rates. Since the tariff barriers had been largely removed, the states reacted to the distortions by putting up non-tariff obstacles. Under pressures caused by the structural changes and competitive problems, the national states found that non-tariff measures were almost the only instrument left to them to satisfy the troublesome and still increasing

¹³ R. N. Cooper: Trade Policy in Foreign Policy, in: R. N. Cooper (ed.): A Reordered World Emerging International Economic Problems, Washington 1973, p. 46 ff.

¹⁴ These include the changes wrought in the world-political structure by the greater equiponderance and equality of status of the centres of gravity in the trilateral space, coincidental decentralization of the leadership function in the world economy both in a quantitative sense (more trade partners and competitors) and in a qualitative sense (more trade partners with greater demands on the system) and globalization of the security policy (political-military security and economic security supplies as its components). On the issue of economic security cf. also J. Peikmans: Economic Cooperation among Western Countries, in: R. J. Gordon, J. Peikmans (eds.): Challenges to Interdependent Economies, New York 1980, p. 75 ff.

¹⁵ Cf. W. Hager: Wirtschaftspolitik und Allianzdiplomatie (Economic policy and alliance diplomacy), in: M. Gräfin Dönhoff, K. Kaiser et al. (eds.): Die Internationale Politik 1970-1972, Munich and Vienna 1978, p. 86.

¹¹ A. Predöhl: Probleme und Phasen der Kennedy-Runde (Problems and phases of the Kennedy round), Hamburg 1966, p. 16.

¹² Cf. A. Lindbeck: Economic Dependence and Interdependence in the Industrialized World, Stockholm 1977; and also B. Fritsch: Die Überforderung des Staates (Excessive demands on the state), IIVG Papers, PV/78-24, WZB, Berlin 1978.

demands at least in part and for a little while, since adjustments, which would have been the proper alternative, were for the same reason more or less ruled out. With more and more problems arising in the control of the internal economic developments the states either attempted to "export" their national difficulties or to set up new (forward) economic defence lines, often with what are described as neo-mercantilistic features, combining an industrial policy conserving the existing structure with a trade policy involving aggressive promotion of exports.

The signs of an erosion of the existing order appeared at a time of increasing value shifts which reinforced the general trend. The power component which had originally been debarred from the system gained more and more weight, and power was used not only to gain advantages inside the system but to bring about a change of its constitution (Hager). As the process of global economic development was manifestly working to the benefit of some partners and the disadvantage of others, the thesis of global welfare maximization through optimal factor allocation was no longer universally accepted without reservations. The principle of the "formal equality of opportunities" was reformulated as a principle of "equality of results"¹⁶. The liberalization had originally been based on the principle of a harmony of interests. Paradoxically it failed because of conflicts of interest which it had created itself.

Salient Features of a Future System

This failure marks what is probably the very end of the exceptional post-war phase of the world economy. In the future we shall have to deal with a more normal – and also more difficult – international situation. The "negative" liberalization has by and large reached its end. An extrapolation or even an elaboration of the so-called "negative" policy would be no adequate instrument for a solution of the problems. Its continuation would, if anything, put the past achievements at risk. It is already evident that such a policy is more likely to further protectionist efforts than to impede them.

The future international regulatory policy cannot and must not embody a return to the historical – often in retrospect overvalued – free trade doctrine, for this would be a negation of the internal economic demands of the states and lead ultimately to more conflicts rather than more cooperation. A defence line to protect orderly economic conditions, must, on the other hand, be set up

against an "employment competition between the states" (Stegemann). But for this more is needed than a "negative" liberalization, the more so as no state will any longer be willing to submit to an unrestricted competitive process, especially when it must be assumed that the adjustment burden will be excessive. For GATT for instance the most urgent issues will no longer be the by now historic administrative protectionism and tariff cuts in the import sector but the new quantitative restrictions in the share of exports and thus, directly and indirectly, the wide field of adjustment policy. A modification of the international economic system must involve three salient areas which have to be regarded as counter-positions to the previous regulatory policy. They can be deduced from an analysis of the international economic development process.

Characteristics of "Positive" Liberalization

The "*positive*" liberalization policy which should be given equal place with – and in future even preference over – the "negative" one is more than a mere trade policy. By its means a system could be established which would forestall the circumvention of liberalization by use of unregulated areas – for this is what protectionism with its bias to mercantilistic practices amounts to – while at the same time offering to the states opportunities for cooperation without having to pay for them by an unacceptable loss of sovereignty. For there is more truth than ever in the dictum that "Sovereignty is the last asset to be pawned"¹⁷.

An international regulatory policy taking its bearings from principles of this kind is to be termed "positive"¹⁸ because its characterization by this word implies, beyond the elimination of internationally effective instruments of economic policy, that

□ parameters have to be set, and this calls for an active contribution by the agents sustaining the economic order which conforms to a strategy of joint reduction and/or regulated containment of the potential for international conflicts;

□ such a policy thereby acts to some extent as a development programme because the problems and conditions of the development process as a structure-transforming process have to be taken into consideration;

¹⁶ W. Hager: Westeuropas wirtschaftliche Sicherheit (The economic security of Western Europe), Arbeitspapiere zur Internationalen Politik, No. 6, Bonn 1976, p. 16.

¹⁷ Ch. P. Kindleberger: Optimal Economic Interdependence, in: Ch. P. Kindleberger, A. Shonfield (eds.): North American and Western European Economic Policies, London 1971, p. 502.

¹⁸ Concerning the so-called "positive" policy cf. also the mentioned study by J. Pelkmans, op. cit., p. 115 ff; cf. also B. Gahlen, op. cit.

□ considerable, though more differentiated, additional control functions have to be undertaken under this policy in order to prevent the erosion of the universally recognized basic principles of the international order through rigid exploitation of permitted exceptions and to avoid that its organizational supports – the patterns of coordination – are exposed to one-sided burdens or easements.

This approach leads to certain conclusions about the order concept to be evolved. These may be summed up as follows:

□ Interdependence has lost its traditional importance. There are limits to its further development. The ideal form of “optimal interdependence” remains in doubt but useful indications may be gained by an approach which combines elements of the theory of competition with regional economic considerations.

□ We shall have to live with a certain amount of trade obstacles in the future, including so-called flanking adjustment measures, for instance in the structural, industrial and environmental policy, which tend to be viewed with suspicion. This would be a solution, although not the best one, and, provided that a “positive” policy could be pursued over the long term as a strategy of harmonization, it would be a solution with a basically liberal constitution. Implicit in this is that the liberalization policy can and must no longer rest purely on the doctrine of free trade.

□ “Positive” liberalization will involve more planned cooperation which should be seen as an anticipatory strategy for dealing with problems of competition without central direction of the national policies in all details. It will allow for distinction between different degrees of cooperation intensity in keeping with the regional organization of the world economy.

International Competition Policy

It will no longer be possible in the future to treat growth as the first priority of liberalization policy. Instead it will have to focus on the competitive aspects of international economic relations. The states have deployed many of the selectively working instruments of economic policy for the purpose of mitigating the increased competitive pressure resulting from international economic integration. This pressure has grown as the scope for innovation narrowed, the business cycles in the industrialized countries converged, new competitors from the “South” made their appearance, etc., and must in addition be viewed against the background of the problems of internal economic control encountered in almost all industrialized countries. Developments which during

the reconstruction phase (when foreign trade acted as a curb on national monopolies) resulted in acceptable and desirable competition, is now the cause of strict regulation – albeit to different degrees – of market access on which is negotiated more and more often individually or bilaterally. If the pressure of competition is deemed excessive, it does not lead to adjustments but to defensive measures to protect or seal off the home market because the social costs of the adjustments are (or, as is often the case, are merely believed to be) too high.

This is the framework in which the “positively” oriented integration policy of the future will have to operate. An internationally conceived competition policy would be desirable as an instrument for maintaining the requisite competitive functions and as a curb on structure-distorting ambitions and activities of the states, but is probably impracticable over the medium term. As an interim solution for a multilateral control of international competition – which is wanted – there remains the harmonization of the measures by the states which have a bearing on competition and cause distortions (rather than differences in level) and thereby set up excessive strains. Curbing and control of the growth conflicts by means of a policy of harmonization (structural harmonization of the instruments employed) with the aim of promoting a competition-oriented growth policy would substantially attenuate the distortive effect of state measures. It would involve a switch from the micro-economic level, at which the distortions become effective, to the macro-economic level of economic policy coordination, and this would help to give to the future integration policy the postulated “positive” character.

Harmonization of Cooperation

The objective is not total but optimal harmonization, for efficient or intensified competition depends, as Stegemann has shown¹⁹, on the existence of relevant differences between the various national economic policies. A “minimum of harmonization” must however be regarded as an indispensable element of the integration process. Institutional safeguards are needed for liberal trade exchanges, if only because continuing differences between national economic policies might otherwise provide openings or incentives for protectionist measures. Among such safeguards are for instance protective clauses. Regulated defensive and control procedures could protect the system against destruction from inside, though at the cost of

¹⁹ Cf. K. Stegemann: Wettbewerb und Harmonisierung im Gemeinsamen Markt (Competition and harmonization in the Common Market), Cologne, Berlin, Bonn 1966.

rescinding the integrative concessions for a limited time and area.

If the states concede to each other in principle the right to take such steps in support of their own economies within a mutually acceptable area determined by general regulatory mechanisms, supportive measures by individual countries, for instance, would be reacted upon by *corresponding* means only. This could lead to a contest between the states in this area of mutually conceded individual economic initiatives which has been described as "growth competition" (Stegemann). A "positive" liberalization policy allowing for optimal harmonization of the competition by a system of adequate and sufficiently flexible regulatory mechanisms combined with protective clauses and adjustment assistance could in the long term lead back to a consensus on the fundamental principles concerning the economic order in which the economic conceptions of the integration partners would be by and large congruent with those underlying the system.

Regionalization of World Trade

The process of international economic development cannot be described adequately without a remark about its regional structural component. It was the – European – regional component which rendered the global design for the organizational structure of the world economy successful, and the world economy is today a multicentral system gravitating towards North America, Europe (EC) and Japan. These facts explain why the regional determinants have to be accepted as more important than in the past and to be used to greater advantage.

It has to be assumed that the world economy will in the foreseeable future continue to be oriented multicentrally to the focal industrial regions²⁰. A world-embracing cooperation concept will in these circumstances probably have to be put aside until a later integration phase. The immediate tasks are indicated by the theoretically well-grounded model of "from the bottom to the top" integration (Predöhl) in accordance with the international structural pattern. It recommends a period of graduated international economic cooperation marked by divergent degrees and intensities of liberalization. In this way the problem of

global interdependence could be resolved with the aid of the regional component, and the requisite harmonization would "neither be stifled by bilateralism nor drown in multilateralism" (Voigt).

After the war the global approach was the only sensible one because there was only one intact centre of gravity (North America), causing the trade flows to move centrifugally. The emergence of other focal regions and the individualization and emancipation processes in these areas gave the trade flows a rather centripetal direction. This makes sense since the focal regions have a high "autarky eligibility" in keeping with their great economic potential in all sectors except raw materials and in particular energy materials²¹. It is however a fact that the trade in substitutable goods between the focal regions, which is largely a consequence of the levelling process that took place in the course of development, is giving rise to special problems. In keeping with the regionalization hypothesis the trade flows between and inside the focal regions should be judged differently: The trade relations between the focal regions should be confined to indispensable – mostly complementary – exchanges, which is incidentally already the case now. As against that, the intra-trade (e. g. inside the EC) should be sustained by exchanges of substitutable goods and by product differentiation; distortions should in this case only hamper purposive relations. It is convenient and fairly easy to maintain a free trade situation inside a focal region because the burdens are shared by more or less equal partners. Problems could possibly arise with regard to the distribution of production sites in the region. They may have to be solved by means of compensatory financial arrangements.

As far as collaboration between the regions is concerned, the possibility of a partial and controlled deviation from laissez-faire principles must be possible in keeping with the "positive" cooperation policy. In view of the conjuncture of economic and political interest it should be possible to carry out the necessary adjustment processes for this purpose in a trilateral framework. It is true that the dangers which can ensue from regionalization have to be kept under control by means of global mechanisms which act as a basic regulatory network while the fine-tuning should be regionalized and – depending on the level which their region has attained – be left to those concerned. It is however extremely doubtful whether this can be done through the available institutions. The OECD is probably more suitable for this purpose than the IMF and/or GATT. An "adjustment process" will be needed also in this respect.

²⁰ Cf. E. H. Preeg: *Economic Blocs and U. S. Foreign Policy*, Washington 1974, p. 185 ff; H.-G. Voigt: *Probleme der weltwirtschaftlichen Kooperation* (Problems of international economic cooperation), Hamburg 1969.

²¹ Cf. also A. L e m p e r: *Handel in einer dynamischen Weltwirtschaft* (Trade in a dynamic world economy), Munich 1974, p. 146 ff.