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as ecology and, ultimately, the good and just society ("social dimension", etc.). More important for the purposes of this paper is the perceived discrimination against outsiders, rendered more visible by a similar GATT agenda.

The first thing to note is that Europe's road to greater internal liberalization must largely be via deregulation, period. Anything else would be too complicated. This means a net reduction of state intervention and regulation, with *erga omnes* benefits.

There remains, however, a crucial residual level of European regulation – whether in telecom, banking, insurance, or other areas – and an equally crucial residual of what one tends to call industrial policy: procurement and industrial targeting. While there is no doubt that the Community lacks adequate political and social institutions to decide on these issues (it does so anyway), there is also no doubt that it has the political institutions to enforce such residual regulation as remains. Competition law is one of the broadest and most crucial instruments to ensure a fair and level playing field (subsidies!), a device without which national "disarmament" in matters of industrial policy would be too risky.

It is enough to compare the Community institutions, with the direct executive powers of the Commission and

the legal clout of the Court of Justice, with the codes and arbitration panels of the GATT to realize that the West-West liberalization agenda must be of a different, much more modest, quality. However, GATT and OECD codes, signed by Member States in a past when they had a host of regulations and devices to frustrate any far-reaching application, throw the Community (much weaker) regulatory space open to all non-EEC partners. Reciprocity is a notion of doubtful validity in terms of the post-war international economic order: reciprocity of opportunity, not results, is clearly the intended sense. That does not make its use by the Community less necessary. A true *erga omnes* liberalization would simply not be acceptable to key Member States (including, in services, Germany) and would hence prevent the completion of the 1992 agenda.

Again, to take up the point of the introduction, the overwhelming *economic* reality is also one of a growing *global* interpenetration of the services markets, growing business cooperation, and cooperative procurement projects. The common objective of "protectionism", whether promoted by corporations or political authorities, is to create instruments for equitable bargains. For such a device to be superfluous, we would have to live in a textbook world of atomistic markets, not one of strategies for which the existence of a single world economy remains axiomatic.

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Georg Koopmann\*

## Reorganization or Disorganization of the World Economy?

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**A**t the moment, the world economy looks healthy. The growth forecasts for the past year, made in the wake of Black Monday in October 1987, were eclipsed by the actual rates while inflation remained under control. For the current year too, a high rate of growth and relative price stability are predicted with growth in the developing countries expected to overtake that of the industrialized ones. The debt crisis in the Third World seems to be abating; export revenues are now rising faster than aggregate debt. The American

trade deficit is gradually receding, though progress is sluggish and the resurgent surpluses in the Federal Republic of Germany and, in particular, Japan are posing a new threat. At the same time, the integration of the world economy is advancing: world trade is expanding fast, faster than world output and the increase in direct investment abroad is exceeding domestic capital formation rates.

In its latest World Economic Outlook, the International Monetary Fund partly ascribes these unexpectedly favourable developments to the economic policy coordination and collaboration of the major Western

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industrialized countries, a judgement which coincides with the prevalent international climate of opinion.

The general cooperation euphoria, though, is tending to obscure the limited scope of these institutions, whose parameters are set by the diverse interests pursued by the individual countries and the conditions to which they are subject. In principle, these differences are equalized by the exchange rate, providing the macroeconomic policies of the various countries are coherent and reliable. International cooperation can play a supportive role here, but it can also be counterproductive.<sup>1</sup> International economic coordination is threatening to overorganize rather than disorganize the world economy.

### Protectionism: the Major Threat

The spectre of a disorganized world economy looms closer, if we consider various areas of microeconomic policy. Of key importance here is the GATT Uruguay Round, especially as its agenda is not confined to traditional trade policy and merchandize trade but also encompasses services and a broad range of government interventions affecting international competition. After two years of intense negotiations, some progress has been achieved: average tariff cuts by at least 30 percent, liberalization of trade with tropical products, surveillance of national trade policies at regular intervals, improvement of the dispute settlement process, and a framework accord on trade in services. However, implementation of these agreements reached at the mid-term conference in Montreal last December depends on whether the European Community and the United States can bridge their fundamental differences over how to reform world trade in agriculture. Apart from agriculture, deep disagreement persists in such important areas as intellectual property, safeguards and textiles. Moreover, GATT member countries have been unable to comply with the standstill and rollback commitment, i.e. to abstain from setting up any new trade barriers in contravention of GATT and to gradually dismantle the existing ones, declared in September 1986 in Punta del Este when the Uruguay Round was launched.

Protectionism remains the major threat to a dynamic world economy.<sup>2</sup> Roughly two-fifths of world trade is still affected by diverse non-tariff trade barriers. A tenth of all trade flows alone is regulated by some 200 voluntary restraint agreements, with the EC and the United States (as importers) accounting for about three-quarters of these. Progress in liberalization is now largely being made in the developing countries. Encouraged by the impressive growth successes of those countries with comparatively open markets, the governments of numerous developing countries have appreciably relaxed foreign trade arrangements and substantially deregulated their domestic economies. Overall, the developing countries have in recent years taken more liberalizing than restrictive action in trade policy, as against the industrialized countries, where the number of restrictions predominates.<sup>3</sup>

### Predominance of "Unfair" Trade Cases

A hallmark of trade policy in the industrialized countries is their predilection for defensive and retaliatory action against the allegedly unfair trading practices of other countries. The remorseless fight against such practices has formed the pivot of the new trade legislation in the United States and indeed of its trading practice for some years now. Whereas the safeguard clause in the American Trade Act corresponding to Article 19 of GATT has only been resorted to comparatively seldom – under certain conditions and terms it provides temporary protection for domestic suppliers under pressure from "fair" foreign competition – the number of "unfair" trade cases has risen dramatically in line with the implementation of "grey-area" instruments such as voluntary export restraints, orderly marketing agreements, etc. Sanctions are not only levelled against dumping and subsidies; the promotion of cooperation and mergers, the formation of cartels, infringements of workers' rights, insufficient protection of intellectual property and similar acts or acts of omission, too, are countervailable offences of a foreign government. The latest example is the imposition of penal duties on various Brazilian products in reprisal for inadequate protection of patents.<sup>4</sup>

Since 1984, the EC too has possessed a protective instrument against "illicit" trading practices,<sup>5</sup> a weapon it has so far only wielded sporadically. The use it makes of its anti-dumping provisions is however all the more zealous. In 1987 the law was extended to cover products assembled within the EC from imported components, the main target being Japanese "screwdriver" plants established to circumvent trade restrictions. Moreover,

<sup>1</sup> Cf. Martin Feldstein: Rethinking international economic coordination, in: Oxford Economic Papers, Vol. 40, 1988, pp. 205 ff.

<sup>2</sup> Cf. Hans Joachim Hochstrate, Ralf Zeppernick: Distortions in World Trade: Recent Developments, in: INTERECONOMICS; November/December 1988, p. 261.

<sup>3</sup> Cf. the latest Report of the International Monetary Fund on Exchange Arrangements and Exchange Restrictions.

<sup>4</sup> Cf. William Dullforce: Brazil says US sanctions breach standstill deal, in: Financial Times, 28 Oct. 1988.

<sup>5</sup> Cf. Meinhard Hiff, Reinhard Rolf: Das „Neue Instrument“ der EG, in: Recht der Internationalen Wirtschaft, April 1985, No. 4, pp. 297 ff.

should the foreign supplier decide not to increase prices despite the customs penalties, the Community is now allowed to impose additional duties.

The problem with EC anti-dumping policies is not so much the number of cases as the huge increase in trading value involved. Traditionally, the anti-dumping laws used primarily to affect raw materials and relatively unsophisticated products, but now the major targets are high-technology goods with a large share in trade (photocopying machines, electronic scales and typewriters, CD equipment, computer printers, video recorders, etc.). If we call to mind that the European electronics industry has been struggling for a respite from international competition for years – with some success, as demonstrated by the increased protective tariffs for video recorders in 1985 and CD equipment in 1984, various voluntary restraint regulations and, most recently, the “voluntary” export restraint of Korean video recorder manufacturers – the EC’s anti-dumping policy stands revealed as straightforward industrial policy and the banner of “fair play” as a flimsy veil.

<sup>6</sup> Cf. The Economist, 3 September 1988, p. 15.

### The New Reciprocity

The twin concept to “fair trade” is the currently much-debated “new reciprocity”. In GATT negotiations so far, reciprocity has been equated with a balanced and mutually agreed *improvement* of market access conditions across industries as well as trading partners. Now, full *equivalence* of reciprocal market access is foremost and sought with regard to specific industries and countries. The yardstick for equivalence is the actual development of bilateral and sectoral balances. The new American trade law requires this sort of reciprocity in telecommunications trade for instance and generally where countries with a high bilateral trade surplus have been demonstrably engaged in “unfair” trading practices. The following quotation of Willy de Clerq’s elucidates the EC’s stand: “We will have to pursue a symmetry not so much in the legal equivalence of conditions of access to markets, but rather an equivalence in their economic effects.”<sup>6</sup>

In the final analysis, fair trade and full reciprocity work against international trade. The proponents of these ideas are striving to level national differences, which are

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Die permanenten Verschuldungsprobleme der  
Entwicklungsländer

### BETWEEN SHOCK AND CALCULATION

The Permanent Debt Problems of the Developing Countries

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the motor for foreign trade and make it worthwhile for the countries involved. Inevitably they subvert the tried and tested GATT principles of most favoured nation and national treatment. The international division of labour is retreating under the onslaught of reprisals and counterreprisals and the deterrent effect especially on small and medium exporters intimidated by the prospect of legal warfare.

### **Strategic Trade**

Besides fairness and reciprocity, another notion has been hitting the headlines for some time: strategic trade policy. It is an elaboration of the optimal tariff argument. Proceeding from the oligopolistic structure of major world markets, it develops strategies to maximize the national share of surplus profits. Its intellectual authors are getting cold feet, however, and cautioning politicians from putting their formulas into practice.<sup>7</sup> The number of strategic trade cases are in fact multiplying. The Airbus example has won converts, as the recent government-aided cooperation between Philips, SGS Thomson and Siemens in chips research shows. Even were it to succeed, the attempt to build Europe up into a power strong enough to challenge the supremacy of America and Japan as well as coalitions between the two countries (in semiconductors for example) would remain highly dubious in terms of structural policy. Strategic alliances between businesses and governments primarily serve producer interests. Domestically, they generate claims for subsidies in other industries and abroad they prompt compensatory action. The taxpayer and the consumer have to foot the bill.

### **Danger of Regional Trading Blocs**

Besides and beyond these developments jeopardizing the cohesion of the world economy, there remains the persistent threat of regional trading blocs. At present, all eyes are on the European internal market. The successful, full liberalization of intra-Community trade would substantially enhance the productivity and international competitiveness of European businesses. A similar effect was achieved in the 1960s, when the Community of Six abolished intra-Community customs barriers and quotas. At that time, the USA in the Kennedy Round of GATT also saw to heavy cuts in the Community's external tariffs. Today, the Americans are particularly vociferous in admonishing the EC not to adopt a Fortress Europe stance, but they have forfeited some of their authority and credibility since then: the

unavoidable erosion of the USA's economic hegemony and its stagnant productivity have been attended by more protectionism and bilateralism. Following the free trade agreements with Israel and Canada the Americans are now enthusiastically pursuing similar accords with the countries of the Pacific Basin.

The mood should not however be confused with the actual situation. The negotiations with Canada have shown how complicated free trade agreements even between countries with similar socio-cultural patterns are. At the same time, the pull effect of the 1992 project on neighbouring countries in Europe is somewhat overrated. The accession option is in most cases a non-starter for mainly political reasons and "mirror legislation" is tantamount to legislative self-disqualification. Splitting the world economy into European and Pacific blocs is therefore a not so realistic vision.

### **Prospects for Multilateralism**

The Gatt negotiations will act as a kind of litmus test of whether the advocates of regional and bilateral liberalization models are ultimately concerned to uphold the preferences and privileges such liberalization affords or whether they are prepared to deploy these concepts as a sort of catalyst for multilateral liberalization. The latter could be helped by applying the principle of most-favoured nation treatment on a conditional basis. Opening up markets more would accordingly only benefit countries that are themselves liberalizing.<sup>8</sup> Not all countries need advance at the same pace. Multilateral liberalization at different speeds could help governments to escape from the prisoner's dilemma preventing them from cooperation.

The prospects for multilateral liberalization are not so bad, especially as the negotiations are being conducted in a propitious global economic climate. Increasing recourse to multilateral arbitration procedures in recent times and the institutional improvements reached at the GATT conference in Montreal both augur well. Moreover, the growing globalization of business through multinational corporations will contribute to narrowing the scope for protectionist measures and strengthen pro-trade interests. Despite the disconcerting developments we have outlined, therefore, there is reason for optimism. The chances of reorganizing the world economy on a multilateral foundation appear to be greater than the danger of disorganization.

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<sup>7</sup> Cf. Marc Levinson: Is strategic trade fair trade?, in: *Economic Impact*, 1988/3, pp. 29 ff.

<sup>8</sup> Cf. also Gernot Klepper: The next GATT Round: Bilateralism versus Multilateralism, in: *INTERECONOMICS*, September/October 1986, pp. 232 ff.