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From International Trade Policy to International Competition Policy

The new World Trade Organization (WTO), which emerged after over seven years of ups and downs from the Uruguay Round of its predecessor GATT, made an auspicious start in January: international goods trade is expanding at a real annual rate of 9 per cent, the fastest in nearly 20 years, well ahead of domestic production growth which, for the world as a whole, amounted to between 3 and 4 per cent last year. This expedites world economic intergration and promotes prosperity in all countries participating in the international division of labour. Conservative estimates predict that tariff cuts in industry adopted by the Uruguay Round, the abolition of import quotas in the textile trade and the elimination of distortions on the agricultural markets alone will boost world exports by nearly a quarter. Forecasts put world income by 2005 at at least 510 billion dollars higher than it would have been without trade liberalization. This amounts to about a third of Germany's national income in 1994.

Liberalized trade speeds up global structural adjustment and steps up competition, but heavier adjustment pressure also induces beleaguered producers and "their" governments to put up their defences or circumvent competition. A favourite evading manoeuvre so far has been the conclusion of voluntary export restraints with dynamic export countries. These kinds of selective protective measures spread like an oil slick over the world economy in the 70s and 80s. They are attractive for several reasons: they protect politically important trading partners, compensate exporters for sales losses with higher prices and shift the burden onto politically weaker groups such as the consumers. GATT posed no obstacle to this neo-protectionism.

In future, though, voluntary export restraints will no longer be allowed; existing arrangements will have to be dismantled. For example, the car agreement between the European Union and Japan with its limits and quotas for Japanese car exports to Europe and individual European countries cannot be renewed beyond the year 2000. Protectionist measures toward individual countries will be subject to multilateral discipline enhancing transparency in particular. Whether this will effectively counter protectionism's damaging effect on the world economy is doubtful, however. As the economic incentives for bilateral trade restrictions will persist and enforcing a ban is difficult because such measures are complex and opaque in their scope and repercussions, they are unlikely to disappear completely and for good. A shift to alternative forms of protection can be expected, which may be more transparent but not necessarily better for the economy: the concern is always the injury caused to local producers, while the benefits to consumers of lower prices, greater choice and higher product quality are ignored. Harm caused to individual branches by foreign trade, though, is often merely an indication of comparative disadvantages.

Since the 80s, the instrument of choice for producers seeking protection has been antidumping. From 1984 to 1993, GATT recorded only 30 standard protectionist measures but 1640 antidumping proceedings. Antidumping duties are usually defended as a necessary deterrent against "predatory" pricing by aggressive exporters offering their products on foreign markets at low prices (just covering variable production costs for example), while enjoying protection on their home ground. Their goal is to establish a monopoly and then exploit the market. The easier market access achieved by the Uruguay Round (opening home markets) has insofar pulled the carpet from under antidumping policy.

In fact, however, antidumping measures have always been more a form of plain import protection than international competition policy. Some 95 per cent of all antidumping duties are estimated to be harmful to competition. The reform of the antidumping regulations in the Uruguay Round is unlikely to have any fundamental effect on this figure as the scope for assessment by the authorities when identifying harmful antidumping practices has been narrowed little. For example, where there are various prices at home and abroad it will still be possible to arrange the international price comparison so that the average export price is inevitably below the average home market price, thus technically making for a case of dumping. In the Uruguay Round the United States, the European Union and Australia, the major antidumpers, prevailed over the opposition of mainly Asian negotiators and established that such price manipulation is still permissible; it simply has to be "explained".

In the past, in almost all (95%) the antidumping proceedings initiated by industry in the EC for example, "dumping" was proven. Four-fifths of these proceedings led to the imposition of punitive duties or pledges by exporters to raise prices or cut supply. The new voting rules in the European Union could make this share even larger and raise the incentive to instigate antidumping enquiries in the first place: antidumping duties can now be passed in the EU Council of Ministers with a simple majority and cannot therefore be hindered by a liberal minority. This was the price for France's agreement to the agriculture package of the Uruguay Round. There is no end in sight to the antidumping boom.

For this reason, it is all the more important to supplement multilateral trade policy with competition policy. Antidumping policy should be gradually superseded by a genuine competition policy that accords precedence to upholding competition over protecting local industry. Structural adjustment pressure could be mitigated by resorting to the general safeguard clause. At the same time, the further opening of domestic markets through the agreed dismantling of tariff and non-tariff trade barriers will improve the economic conditions for doing without antidumping measures. On top of this, foreign investors must be given better access to markets (to spur competition) and placed on an equal footing with local businesses while, in particular, competition policy and its enforcement mechanisms need harmonizing.

Beyond obviating antidumping measures, competition policy should generally prevent private constraints on competition from counteracting the gains made by freeing world trade from its political and administrative chains. The danger is great. Currently internal company transactions already account for 40 per cent of world trade and 70 per cent take place between more or less closely linked companies. The dismantling of trade barriers will give businesses an incentive to circumvent keener competition by restricting it and profit from possible rent gains. Economically harmful dumping strategies which are much riskier for the players on an open market than on a closed one, could be replaced by other forms of anti-competitive behaviour on the part of private firms encouraged (or even made worthwhile) by government deregulation of trade. Doing away with government customs revenue, for example, improves earnings prospects for private cartels and renders them more attractive. As cartels thrive best where there is little danger of outsiders entering the market, abolishing trade barriers could in particular encourage the formation of international cartels and the erection of barriers to market access through vertical linkages.

National competition policy cannot effectively counter this kind of development as its scope of influence is subject to territorial limits. For mercantilistic reasons, it frequently even encourages cartels by authorizing their establishment in the export sector. National competition policy stresses competition on the domestic market and is often also aimed at gaining a more advantageous national position at the expense of other economies to improve terms of trade. To secure trade liberalization and avoid trade disputes like the current one between Japan and the United States over cars and car parts, there is a need for binding basic international rules for competition policy (including a ban on export cartels) and for effective enforcement mechanisms. These can best be negotiated under the auspices of the WTO.

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