

# Looking for a Multilateral EC

By Manfred Holthus

There is no doubt that the rapid reconstruction and economic recovery in post-war Europe was to a large extent possible only because continuous liberalization of international trade under the rules and regulations of GATT encouraged economic progress. World trade, on the other hand, has benefited from the foundation of the European Community (EC).

The EC entered the scene some 27 years ago. It was founded not only in order to bring Europe politically closer together, but also to foster the liberalization of world trade by speedily reducing trade barriers within the industrial center of Europe. The GATT rules on the formation of free-trade zones and customs unions can only be interpreted in this way.

The EC, however, not only gradually abolished tariffs between the member countries of the Treaty of Rome. Its foundation and later efforts for enlargement led to a series of worldwide trade negotiations within the GATT framework, including the Dillon Round in 1960-61 and the Kennedy Round from 1964 to 1967. The fact that Great Britain, Denmark, and Ireland intended to join the EC at the beginning of 1973 was, together with the Nixon shock, one of the main reasons for starting the Tokyo Round in 1973.

Today, the Community is—as its skirmishes with Japan and the United States show—on the verge of becoming a union of protectionists. Whereas the attempts of the EC to seal off markets were originally concentrated on agriculture, during the course of the 1970s more and more industrial products were brought under this policy.



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At first, the EC's propensity toward bilateralism led to a flood of preferential agreements. Shortly before the end of the GATT Tokyo Round, less than 40% of EC imports were covered by customs duties conforming to the most favored nation principle. Australia, Canada, Japan, New Zealand, South Africa, and the U.S. were among the non-privileged countries. Their exports were burdened on average with a customs duty of 8.3%, whereas the favored countries only suffered duties averaging 2.7%. Although the Tokyo Round led to a reduction in duties, in principle nothing has changed.

European customs policy is gradually acquiring a discriminatory character.

## NTBs a decisive factor

Yet customs duties, with the exception of a few particularly high ones, no longer play a decisive role in trade. The main problem is non-tariff barriers. If the official GATT list of non-tariff barriers is taken as a guide, the EC attempts to curb 5.4% of imported finished products by such measures, against only 3.1% for Japan.

This impression is further reinforced by developments during the 1970s. The EC continually introduced additional non-tariff trade barriers either for individual member countries or for the Community as a whole. Between 1973 and 1980, the Community resorted to protective measures 17 times under Article 19 of GATT or Article 113 of the Treaty of Rome. The proportion of imports subject to restrictions increased by 38% between 1980 and 1983. As a result, in 1983 10.2% of EC imports from industrial countries, and 21.8% of imports from developing countries were subject to non-tariff barriers.

All this does not mean that other countries are without fault. On the contrary, in the U.S. between 1980 and 1983 the share of imports subject to non-tariff barriers doubled. And Japan, despite all the efforts of its government to open the doors to foreign products, is far from being a liberalized market. But the EC with its 32 percent share of world trade—more than three times that of the United States and

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Leaders of the EC member countries met at an annual EC summit.

four times the share of Japan—has a special responsibility to support efforts to maintain free world trade.

The rising protectionist tide in Europe and other trading powers in the 1970s and early 1980s has coincided with major structural changes in world trade. The surges in OPEC oil prices in 1973 and 1979 caused current account balances to deteriorate. Numerous economies fell into long-lasting recessions, at the same time that intensified import competition from the newly industrialized countries created strong pressures for structural change.

But it would seem that the flexibility required to adjust to changes in trade and production patterns has weakened considerably. In the end, governments have tried to supplement macro-policies with the measures which are now called "neo-protectionism."

The first step toward a more liberal trade policy in Europe thus must be a strengthening of economic growth. There are some signs that growth rates in Europe will soon begin to rise again. But the efforts for higher economic growth have to be maintained and intensified.

Under Article 113 of the Treaty of Rome, the Commission became responsible for developing a common trade policy as of 1970. But the countries "united" in the European Common Market remain reluctant to transfer mandatory powers to the Commission. This has resulted in fragmented EC trade policies.

Bilateral voluntary export restraints and sectoral agreements between single member countries and their trade partners still conflict with a common approach to trade problems. As long as member countries feel that existing bilateral terms are more attractive than EC-wide terms, the role of the Commission in trade negotiations will remain weak.

The second urgent step therefore is to complete the internal market. Paradoxically, it may happen that in the first phase of this process the Community in total will become a little more protective. But establishing the full responsibility of the Commission in trade matters in combination with majority voting in the Council brings with it the chance of a more liberal trading policy in subsequent phases of the process.

### Give up the bilateralism of the past

An intensified growth policy and the completion of the Common Market are prerequisites to restoring the momentum of trade liberalization. But the third and most important step has still to follow. In future, the EC must place more reliance on multilateralism than on the bilateralism of the past. This means that the EC should give its full support to a new GATT Round. It should, for instance, reconsider its reluctance to discuss the problems of farm products trade and farm subsidies within the framework

of multilateral negotiations. The Community has more to gain than to lose from multilateralization.

High on the agenda of any new GATT Round, the EC should place the so-called gray area measures, by which is chiefly meant "voluntary" export-restraint agreements. As bilateral agreements and as quantitative restrictions, they clearly violate two important GATT provisions:

- the principle of non-discrimination, requiring most-favored-nation treatment to be accorded unconditionally to all GATT members;
- the intention that the tariff should be the sole instrument of protection due to its consistency with the price mechanism.

In this respect, the EC should work for a "re-tariffication" of trade policy in the case of emergency protection. This would also ease negotiations within the EC to complete the Common Market. And it is of relevance as well to the question of import quotas negotiated under GATT Article 35 against certain exports from Japan when Japan joined GATT in 1955.

As shown by the events of recent years and of June 1985, if an agreement on an agenda and a fixed date for the start of a new round of GATT talks is not reached soon, a permanent trade war in the Europe-U.S.-Japan triangle will be all but unavoidable. A return to bilateralism for virtually all products would mean the end of GATT, and deal a deathblow to free world trade. ●