The Regional Approach towards the Expansion of World Trade

by

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In the pages of this Review we have studied by stages the organisation of European markets. We made in the first place (1) a critical examination of some plans submitted, sometimes in summary form, on the fundamental reasons of the demand for organisation; on the first problems to be solved (number of commodities, number of countries, supernational authority or not); on the principles which should inspire this effort towards organisation.

Later on (2) we laid down a systematic body of principles to serve as a guide in the practical organisation of European markets, whether agricultural or not. In this article we wish to throw light on some aspects of the mechanism suggested which are somewhat complicated and might therefore lead to misunderstandings of the purposes that a properly understood organisation of markets has in view.

1. — The following principles suggest themselves as suited to form a basis for the organisation of European markets — i. e. the common adoption by European countries of measures relating to the consumption, production, processing and exchange of agricultural products (3).

A *first* principle is that the European countries should *coordinate* their *consumption policies*. The data available on the trends of consumption of foodstuffs in Europe justify the presumption of a potential demand for fruit, vegetables, milk, cheese, meat, and a rather smaller one for sugar and fats. The products are those best suited to conditions in European countries and their production should be encouraged so as to raise the nutrition standards of the populations and to secure greater price stability. Consumption may expand, on the one hand, as a result of all the means that tend to raise the incomes of the poor classes (in the first place, by suitable exports of typical products); on the other hand, through the several means that tend to raise the purchasing power of existing (viz. a fall in production costs due to higher productivity or to lower prices of the leading factors of production — fertilizers, machinery, fuels — and of marketing costs; coordination of stocking policies so as to avoid seasonal fluctuations; lower taxation; standardization of types; improved information services on production and markets, etc.).

In the case of a wide international area, the timely and systematic character of the measures taken in common by the European countries cannot but have a favorable influence on lowering prices and raising the purchasing power of existing incomes, without injuring the interests of the producers.

2. — A *second* principle arises from the need of a sound coordination of *production trends*. This does not mean fixing targets for each country. The purpose is to secure more economic combinations of the production factors, so as to raise the income of the farming population, which is so often insufficient. This presupposes the study of many elements: soil and climatic conditions; the spread and development of technical knowledge so as to direct production along the lines best suited to the structure of each country; trends of European consumption that should be encouraged by concerted action; volume of the available resources in each country — among which labour — so as to secure their best use; the possibility of developing backward areas; the possibility of replacing some crops by others, and thus contributing to a better geographical distribution of production; the supply of credit to farmers in various ways; the encouragement of investments; and so forth.

Turning to production, it must not be forgotten that European agriculture would not be able, at least in the case of some crops, to stand at once the competition of the great exporting countries. Apart even from the differences in costs and prices between overseas and European countries, European agriculture has to face the competition of world prices maintained at artificially low levels by bonuses and other means used for promoting exports. It would not be advisable for Europe to be exposed to the full influence of these conditions, more especially during the period in which all the efforts of the several countries would be directed towards lowering, as far as possible, the prices of agricultural products: that is to say, towards leading the majority of farms to adjust their costs to those of the most efficient. Moreover — if we consider the numerical importance of the agricultural population — it seems proper, in the absence of emigration and of adequate industrial expansion, to assure it sufficient possibilities of employment.

The *coordination* of national policies affecting the consumption, production, processing and prices of products, is seen to be essential for a successful attempt at organising markets. Should this be impossible, all the measures taken in common would be constantly endangered by divergent policies of the several countries.

3. — A *third* principle is that of the *expansion* of trade between the countries. The gradual reduction, leading to the final suppression of *quota restrictions*, would assure larger and better supplies available for the European populations, and would reduce European economic dependence on other Continents. The problem of harmonising the customs tariff policies of the several countries might be examined in a later stage: this would best be done by the G.A.T.T.

For the present, even if we limit ourselves to the suppression of quota restrictions in their many forms, some problems will have to be solved.

4. — (A) *Should the approach be made by economic sections or as a whole?*

In our article of July-September, 1953 (4), we pointed out the advantages that might arise from the economic integration of the European countries. We showed that the interests that might be injured by such action would be limited to those of competing forms of production; and that this injury would be of a temporary character. On the other hand, as the aims of integration — the enlargement of the market, more economical production — are attained, the advantages secured would be seen to be *permanent*.

In brief, by integrating the economies of some countries — more especially by European integration — we should secure a more efficient utilisation of available resources, lower production costs, higher standards of living for the populations. It might — we said — reduce the need of imports and make the participating countries less dependent on the United States. By reducing costs it might facilitate exports to other Continents. It would therefore form an essential feature for the solution of the world problems of securing higher production and more active trade between countries. This forecast of losses and gains holds equally good whether the integration of *all* the economic sections of some countries (let us say *six*) be considered, or the integration of *one* section only (let us say agriculture) of *seventeen* countries. Should six countries combine — provided self-sufficiency policies be discarded and marked reductions of trade with non-European countries be discountenanced — a « full integration » would enable losses and gains to be more readily offset than a « sectional integration ». Nevertheless, even a cautious integration of one economic section

(1) This Review, October-December, 1952, page 201.
(2) This Review, No. 26, July-September, 1953, page 172.
(3) The remarks could apply equally well to any other products.

(4) See note (2).

only, if pursued to its ultimate consequences, would, in the long run, bind the *whole* economy of one country to that of the other participants. So, in the long run, in spite of the apparent lack of logic of an approach by sections, no substantial difference remains between it and the simultaneous approach of all the sectors of the economy. It is a question of reaching the same results in a more gradual manner. The approach by sections has, among others, the advantage of facing the difficulties first of all in the more difficult section — namely agriculture for many countries — and then passing on to the easier ones.

5. — (B) *Purchase preferences of the member countries and competition.*

If producers are to be induced to produce more — thus making the group of countries desirous of integration independent of foreign lands for many imports — *larger outlets* must be assured for the products. These may be secured by an agreement under which the member countries undertake to import fixed quotas of exportable surpluses at fixed prices, from each of the other member countries *before* taking them from other countries. *Quotas* gradually increasing, *price levels* gradually declining — should they have been fixed, at the start, at a higher level than that quoted in third markets — would be established under *multilateral* agreements between importers and exporters and revised periodically: generally speaking once a year.

Thus an attempt would be made to enlarge gradually the regional demand, so as to allow the regional supply also to expand, thanks to the assured outlets provided by the « priority purchase » clause. This assurance would not however exclude *competition* among the exporters of a given country, nor among the exporters of several countries. An example may serve to clarify how competition would proceed between the exporters of different countries.

An importing country obtains a product from three leading exporting countries. From country A producing at a cost of 10; country B at a cost of 9; country C at a cost of 8: all selling at prices differing but little from the above. It may be supposed that the importing country will purchase a smaller quota from A, producing at 10, and a larger one from C producing at 8. But if, on the one hand, A succeeds in lowering its cost of production to 8 — and if on the other hand the population grows, consumer needs grow, and economic activity expands — the importing country will no longer have any reason to import less from A than from C. It will however continue to import less from B, whose costs of production still stand at 9, for it will not increase considerably — perhaps not at all — the initial minimum quota fixed with country B for the purchase of the exportable surplus. On the contrary, as the price offered by the exporting country gradually falls, it will certainly increase the quota originally agreed on with A and with C.

In this way, each exporter will be assured a minimum outlet which may increase with the decrease of the price he quotes. He will therefore be induced to adopt improved methods of production. In conformity with this principle, the exporters who can produce most economically — whether within each country or within the area of the agreement — will be preferred to their competitors.

In this manner — when competition is assured and the regional demand expands with the progressive expansion of the quotas, at prices that are constantly adjusting themselves to those quoted for the said product on third markets — the regional supply will also grow and will become the most advantageous one offered. In presence of such results, the purchase preference, granted to countries within the area of the agreement over third countries, will have no further reason to exist. It may then disappear, because the competition among the exporters in the supply region will have secured the survival of the exporters who produce most advantageously: *i.e.* the cheapest producers who are able to meet also the competition of third markets with the sole protection of a customs duty.

Therefore — both in the case of the *total* integration of *six*, or in that of the integration of seventeen for a *certain section* of production — the principle of granting a trade preference for quotas that are to be imported in the first place from the member countries, will never act to the disadvantage of other countries by reducing the exchanges of goods with them, provided we start from the assumption of an expanding economy in which population is growing and with it the needs to be satisfied. Once the import quota agreed upon with the member countries has been taken, each country will be free to import from or export to third countries goods and services, as it may deem best. And it will be found that the commercial preference is only needed until such time as the expansion of regional demand will have caused, as the result of competition, a like gradual expansion of the *most economically advantageous supply*. This means — whether it be for six, or for seventeen — that the countries best suited by natural conditions to meet the existing demand must be those who will provide the regional supply. Consequently, all production sustained by artificial means will have to disappear, even though it be gradually.

The favourable results of integration — *i.e.* the fullest utilization of available resources, the expansion of European production, Europe's reduced dependence on other Continents, a higher standard of living for her populations — will thus, let us repeat it, make a positive contribution to the solution of the world problems of producing more and intensifying trade between the countries. The « regional stage » — now a part of Europe, tomorrow a part of other Continents — will mark decisive steps towards an economic agreement between *all* the countries of the world, provided the principle of competition be respected, which is after all that of « selective production » within each country and within the agreement area. Under present conditions an economic agreement between all the countries of the world would not be easy to secure for other than very general purposes. A world agreement could however be secured as the result of the confluence of « regional approaches ».

6. — (C) *Multilateral bargaining and automatic elimination of quantitative restrictions.*

The reference made above to the gradually growing size of the *quotas* and to the gradually declining *price* level, arranged always on a multilateral basis between importers and exporters and periodically revised, leads to the realization of the « principle of trade preferences through multilateral bargaining between importers and exporters ». And here let us repeat that this will not create a « block » and will not set up an autarchic European area, provided the principle of competition be respected in the offers made by the exporters of each member country, so that the exporter producing to the best economic advantage is the one who succeeds in securing orders, and the whole supply of the region is obtained at the most economically advantageous level.

Another problem that arises in connection with the gradual enlargement of the quotas is that of the *automatic* progression which — under like circumstances — might be left only to the results of multilateral or other negotiations. Now it would seem advisable that, as soon as European markets are organised, the expansion of quotas and exchanges should be to some extent automatic. This automatic character might indeed be modified in exceptional cases, but it is advisable that is should be the basic policy.

7. — (D) *Compatibility between purchase preference and « minimum prices ».*

When trading transactions are regulated by « minimum price » systems, the principle of trade preferences can only be given effect if it be expressed in a formular which makes it obligatory on each country to import *at least a minimum quantity* from the other member countries. In the absence of such an obligation it might well be that the arrival on the importing market in large quantities of a given product from third markets, under agreements already in force, would force prices below the established minimum, and thus nullify the principle of purchase preference. Therefore, if the minimum price alone were to act, the organisation of markets between member countries would become disadvantageous to those countries and useful for third countries, not tied by any obligations.

8. — (E) *Compatibility between preferential trade and trade with third countries.*

On the other hand, the conception of an *expanding* European economy — as a result both of the growth of population and the need of raising the living standards of the existing populations — excludes the fear that existing trade currents with third countries might be considerably curtailed. For instance, a careful examination of the market situation made in common, might suggest the advisability of quotas « reserved by the member countries for export » to their traditional markets and to the recognition of current commitments under long term contracts (as for instance the International Wheat Agreement). It is always possible under the conditions of an expanding economy to maintain a large part of the traditional imports.

9. — (F) *The search for compensatory exchanges.*

The problem of compensatory trade also exists. The exporting countries that benefit by the larger outlets for their products, will have in their turn to make *compensatory* purchases from the importing coutries.

Some degree of compensatory trade between importing and exporting countries will arise with the gradual relaxation of the protective measures. The compensatory items may be found both in the agricultural section itself — among the products not yet affected by the gradual enlargement of the quotas — and in the non-agricoltural sections: as, for instance, among the instrumental goods required for the cultivation of the farm products themselves; or among other industrial commodities. Obviously the search for these compensatory items and the enquiry into the consequences they may entail, could only be undertaken by such organs as the Trade Committee of the O.E.C.E., which review and control trade exchanges in all the sections of each country.

10. — (G) *Trade expansion.*

After long discussions, and in the light of the enquiries into the possible consequences for the economy of the importing and exporting countries, three systems have been suggested for assuring trade expansion, differing according to the special features and market needs of three groups of products:

A - *Cereals*: progressively increasing quantities with the undertaking to withdraw them at prices fixed under multilateral agreements;

B - *Dairy-products*: progressively increasing quantities without an undertaking to withdraw them and without fixed prices. The importing country would however undertake to assure free circulation of the quantities agreed on, the only limitation being that of minimum and maximum price limits;

C - *Fruit & Vegetables*: a minimum price system, compatible with a system of quotas.

Although the systems suggested for dairy products and for fruis and vegetables may seem to differ, it would be advisable, whenever minimum prices are to be enforced, that — as already mentioned — clauses should be introduced *making preferential trade operative*. Thus, for instance, in the case of fruits and vegetables it might be made obligatory to import at least a *minimum* quantity from the member countries.

11. — (H) *Coordination of customs policies.*

The effort for the organisation of European agricultural markets is the first stage on the road to their unification. This would be achieved by a gradual relaxation of the existing quota restrictions. But even this mitigation would only lead to very partial results, unless it were accompanied, on the one hand, by a certain « normalisation » of customs protection — and this would mean the prohibition of raising them and the firm intention of lowering them — and, on the other hand, by the elimination of prohibitive duties *within* the member countries themselves.

No less essential would be the need of reducing, later on, the differences in the levels of the duties on the products of third countries levied by the member countries. We mention these problems here only because they are connected with the effort to organise European markets. A thorough examination of the matter — as we have already said — must be deferred to a more qualified party.

12. — (I) *Total or partial acceptance of a possible convention for the organisation of markets.*

Lastly, it would seem advisable to accept the principle that a country may not take part in an agreement for a product of its choice and to its advantage, unless it takes part in the whole body of agreements for the other products considered in the Convention by the other countries. The operation of market organisation must be *indivisible*. To approach it separately for the several branches of economic activity already presents difficulties. These difficulties would increase if, in their turn, the individual countries wished to participate in such an organisation but for one product only, and not for all those taken into examination.

Obviously the participation of the two major importing countries, Germany and Great Britain, would be of great importance for the vitality of the organisation of agricultural markets. This consideration may therefore suggest the advisability of not discarding *a priori* special and *exceptional* adjustments of the clauses of the agreement.

13. — *Conclusions.*

To sum up, we may say that the purposes of an organisation of the European markets have already been defined. They are, in the case of agriculture: to assure the maximum utilisation of available factors of production; to assure the maximum selective production in Europe; to reduce European dependence on other Continents; to raise the living standards of the populations. The principles have already been elaborated that should inspire a concerted action among member countries to attain these purposes without injury to third parties, but contributing to the insertion of Europe in the expansion of world trade. Practical systems also have been suggested, which would allow of more active trade in keeping with the production and consumption policies of the member countries.

It should therefore now not be difficult to organise — even if for sections only — the European markets. The machinery suggested would be valid for all branches and not only for the agricultural ones. Caution will certainly be necessary. But above all bursts of enthusiasm should be avoided, followed by periods of more or less good-natured slackness.