Nationhood, the GATT Ideal and a Workable International Trading System *

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I. Introduction

The goals of multilateral trade negotiations (MTNs) under the auspices of the General Agreement on Tariffs and Trade (the GATT) have been determined in the light of the orthodox theory of commercial policy which views the world from an internationalist perspective. In such a model embodying the "GATT ideal" of perfect non-discrimination in international trade together with freedom of establishment and national treatment for foreign capital, no attention can be paid to the desires of people to retain the socio-cultural or socio-economic aspects peculiar to their nation state (nationhood): all must be sacrificed to a globalized conformity.[1] This omission had little significance in the early years of the GATT[2] but, given the significant amount of globalization which has taken place within the last quarter of a century, the omission may be having serious effects on current and future MTNs: failure to recognize the desire for nationhood could prevent further gains and could engender retrogression.

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[1] The obverse of nationhood renounced in negotiations is "cultural imperialism" as globalized conformity is inflicted on nations as a cost of membership in the global trading system. See fn. 22 below.

[2] Rothschild (1963) addressed the potential social costs of foreign cultural and economic domination in an analysis of the effect of the size of nations and the degree of integration.

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The purpose of this paper is to offer an analysis which shows why the GATT ideal may not be a feasible medium-term goal under existing conditions. While the argument has relevance to MTNs generally, the paper does not address the specifics of the Uruguay Round; rather it analyzes how a relatively liberal or open trading system might be preserved in a world in which cultural values and desired domestic policies of major nations or blocs run counter to the requirements of the GATT ideal.[3] A failure to acknowledge the legitimacy of those domestic concerns, which conflict with the GATT ideal, precludes any constructive approach to finding a viable alternative. The paper suggests policies that will both ease the existing stress and preserve the existing degree of liberality.[4]

Section II juxtaposes the desire for an open trading system and the desire for nationhood. Section III identifies forces which will support or oppose adoption of a more liberal trading system. Section IV identifies Japan and France (operating within the European Community) as countries with concerns about the preservation of economic and socio-cultural features that limit their desired degree of international involvement and the United States as the motive force behind the drive for the GATT ideal: it addresses the potential limits of the liberal trading system when major nations find their tolerance for globalization exceeded by the requirements imposed by the system. Section V considers possible policies which might achieve and maintain a second-best world of something less than the GATT ideal.

II. Nationhood and the GATT ideal

The focal point of the current stress is the inevitable conflict between the desire to preserve national identity or nationhood (Gray, 1990 and 1993a) and pressures for "globalization" as nations are forced to adjust their domestic economies to the ever more circumscribing and penetrating requirements of the liberal trading system. This clash has become steadily more important as a result of the greater degree of *de facto* economic integration which has taken place in the international community.[5] The steady increase in *de facto* integration is the result of past successes in: innovations in transportation and communications; the integration of national financial markets into what is now a global system; the closer international linkages developed in multinational corporations (MNCs) by new managerial technology (Ostry, 1992) and the concomitant growth of intra-firm trade (Gray and Lundan, 1993).

The degree of renunciation of nationhood required by full membership in a very liberal international trading system with a high level of *de facto* integration depends upon the difference between the desired national pattern of institutions and values and the features of the homogeneous system imposed by the rules prescribed by the global trading system. Walter (1969) suggested a threefold classification of commercial policy measures: deliberate, quasi-deliberate and accidental. The first category is best illustrated by the imposition of a tariff to protect a politically-powerful industry from competition from imports (traditional protectionism), and could also include offensive strategic trade policies. The second comprises measures which are announced as intending to move the economy toward the domestic structure which it seeks (nationhood) but which have covert commercial policy intent: such measures provide the governments with a means of imposing protectionist devices under cover of domestic concerns. The third category comprises measures whose purpose is truly to bring the domestic economy into conformity with national desires but which have unintended adverse side-effects on imports from foreign countries. These measures apply to international trade in goods and services but they have their equivalents in policies towards inward and outward foreign direct investment. *Nationhood* can be defined in terms of the degree to which a nation would prefer to institute or, more importantly, not to eliminate quasi-deliberate

[3] The authors are neutral on the issue of nationhood vs. the GATT ideal but believe that retrogression is to be avoided because it introduces adjustment costs away from global allocative efficiency.

[4] Gray (1993b) points out that the theoretical argument for free trade is not as strong as the fervor of its adherents and that a policy of damage control might warrant consideration at this time.

[5] This paper distinguishes between *de facto* integration brought about by greater interdependence or globalization pressures and *de jure* integration which formally allies nations within an economic community or a free trade area and explicitly recognizes the sacrifice of nationhood to that within the group. Rothschild (1963) focuses on the latter.

and/or accidental "trade-affecting" measures. Globalization is the degree to which the nation would be prevented from preserving its desired features by the requirements of membership in the international trading system. *De facto* integration accentuates the pressures of globalization and the rate of loss of nationhood will increase as the degree of *de facto* integration increases.

Since the United States was the leader in the establishment of the international trading system after World War II and has been the main motive power in the striving for the "GATT ideal", it is self-evident that the U.S. authorities perceive no net nationhood costs in adhering to or in intensifying the current system.[6] The United States is, in consequence, recognized as the source of cultural imperialism. On the other hand, the United States sees other nations as inflicting costs on it by maintaining barriers to U.S. exports. Bhagwati (1993) asserts that the United States is suffering from "diminished giant syndrome", that is a widespread belief that the United States made repeated concessions in trade negotiations in the post-war period while receiving few in return and that the time has now come to redress this imbalance by requiring unrequited concessions from those trading partners that are deemed to be acting "unfairly". Legislation authorizing 301s and Super-301s (measures which permit the United States to discriminate against imports from the countries targeted under this legislation) is symptomatic of the syndrome. Bhagwati (1993) sees the legislation as evidence of U.S. weakness and argues that nations should not negotiate with the United States under the threat of 301s: the adoption of Bhagwati's advice would enhance the probability of a breakdown of negotiations and of systemic retrogression. Kreinin (1993), in contrast, argues that 301s should be used as bargaining chips in multilateral trade negotiations (MTNs) and to discipline countries which follow what are seen as "unfair trade practices".[7]

[6] It might be argued that the U.S. authorities do not fully appreciate the costs which the existing liberality of trade imposes on the U.S. economy. These costs derive from the economic *and* non-economic fall-out from antagonisms deriving from U.S. efforts to increase the degree of liberality so that the system might more nearly approach the "GATT ideal": costs may also derive from cleaving to a system and a philosophy fashioned during the period of U.S. economic dominance in the immediate post-war years. Non-economic costs may generally be thought of in terms of "foreign policy" and, with the collapse of the U.S.S.R., these costs may increase in importance as political co-operation becomes generally more difficult to obtain.

[7] The United States used 301s during the so-called "strategic impediments initiative" negotiations in 1989-90 (see below).

There can be no question that the United States was the motive power behind the establishment of the GATT ideal in the post-war years[8] and has remained the dominant force behind requiring greater openness in goods markets and in investment and non-discriminatory treatment of foreign subsidiaries (so-called "national treatment"). Similarly, the European nations have little philosophic difficulty in accommodating the GATT system in principle, although many of the current thorny issues which are sources of stress or friction, relate to an unwillingness to renounce preferred domestic policies (nationhood). On the other side of the world, the Japanese find adjusting to the existing system extremely destructive of the traditional (and successful) Japanese system.[9]

III. Benefits and costs of international involvement

The conflict derives from the increasing marginal cost of and the diminishing marginal benefit of greater international involvement with high or increasing levels of *de facto* integration. The benefits from international trade are conceptually straightforward: as the gains from international trade and increased global allocative-efficiency, they constitute the essential argument for free trade (the GATT ideal). Other gains from international involvement are additional and include any gain in international competitiveness or domestic macroeconomic (employment) advantage deriving from a current account surplus (and vice versa; Milberg and Gray, 1992), any weakening of monopoly power of domestic industries as well as any gains deriving from the technological inflow accompanying inward foreign direct investment (FDI) and any benefits from outward FDI.

[8] Hudec (1975, pp. 48-51) suggests that the leadership in the process of establishing the GATT and MTNs as mechanisms to liberalize international trade was the result of co-operation between France, the United Kingdom and the United States. In terms of the analysis below, it should be noted that the degree of *de facto* integration at that time was very small compared with the present.

[9] This may be due to Japanese emphasis on economic growth instead of seeking optimum (static) resource allocation. The willingness to structure the economy in such a way that saving rates remain very high means that a trade surplus is a necessity for continued high employment and adjustment to a lower trade surplus will involve substantial changes in the Japanese economy.

The economic costs of greater international involvement revolve around the uncertainty deriving from the possibility of disruptions in supplies of imports and in foreign markets for exports.[10] Any dislocating costs of adjustment to new international economic conditions will also tend to increase costs in the short term. In addition, there exist costs to societies which are imposed by international involvement in the form of a requirement that the society adapt the structure of its economy to that imposed by the global trading system. This latter cost depends upon the degree of attachment to national values and the difference between the national values and those imposed by international involvement: the more compatible the economic philosophy of a country to the non-discrimination and the decentralization implicit in the GATT ideal, the smaller are the costs of adaptation. Marginal costs can be expected to increase (at an increasing rate) with international involvement.

There is no threat to the open international trading system when the degree of international involvement of all of the negotiating countries yields net benefits at the existing or target degree of international involvement (as in the early GATT-sponsored MTNs). But if a (major) country perceives itself to suffer total costs in excess of the economic gains, then the country will resist further international involvement either through covert impediments to such involvement, by restraining the breadth or scope of ongoing MTNs and/or by obstructing them.[11] Such a danger cannot be ignored. It is currently impossible for a nation fully to take part in the international arena without exposing its domestic financial and communications markets to a degree of *laissez-faire* which may be considered undesirable and without adjusting its tax and income-redistribution systems so that internationally-mobile capital does not flow to the nation most willing to subsidize inward investment at the expense of its household sector. Free foreign access to entertainment industries is another culturally-sensitive concern. MTNs designed to bring about freedom of establishment and national treatment in services and freer

[10] The traditional theory of international trade recognizes the potential costs of disruptions in international markets (including the possibility of wide swings in foreign-exchange earnings due to excessive concentration of exports in a single product) but does not incorporate this uncertainty into its basic (certainty, equilibrium) model on which the free-trade argument rests.

[11] Note that, short of deliberately raising barriers to international involvement, a nation has little choice about its response to technologically-induced increases in *de facto* integration.

trade in agricultural goods can increase perceived costs in many nations as can a turbulent global economy which requires continual reallocation of resources among sectors and unsatisfactory global macroeconomic performance with unacceptably high levels of unemployment reduce perceived benefits.[12]

IV. Potential conflict

The cost-benefit concept can be used to address the problem of preserving the present, relatively open international economic system. France through its concern for its agricultural sector is the European champion of resistance to the GATT ideal,[13] and Japan, through its concern for its cultural integrity, finds itself with its degree of tolerance potentially exceeded by both the target and the actual degree of international involvement (even with the benefits derived from its very large current surpluses).

The Common Agricultural Policy (CAP) of the European Community (EC) was originally outside of the domain of the GATT because of the United States' ability in 1955 to exclude agriculture from Article XI which forbad the imposition of quotas. Over time, the United States, motivated by the cost of its own agricultural support programs and its inability to export as much as it would wish because of foreign protection of agricultural markets, has tried to retrogress from this exclusionary position by bringing agriculture back into the general purview of the GATT (Avery, 1992). Most recent tensions between the Community and the United States have hinged on European/French resistance to greater liberality in trade in agricultural products.[14] The requirements of its agricultural sector makes the EC's tolerance for international involvement less than that of the Uruguay Round target. EC resistance to a substantial reduction in

[12] Any increase in feelings of nationalism will enhance perceived social costs (Kindleberger, 1984).

[13] Philippe Seguin, President of the French National Assembly, has argued for the abolition of the GATT, *The New York Times*, 3 July, 1993, p. D1.

[14] In fact, the CAP does contravene the spirit of the GATT since it imposes a scientific tariff on agricultural imports in order to protect its agricultural producers *and* earmarks the proceeds of that tariff to fund subsidies for exports of surplus agricultural produce generated when Brussels sets the internal price of some commodity too high.

agricultural protection has serious problems of civil strife and political repercussions aside,[15] a logical basis in that a substantial reduction in the degree of agricultural protection would cause capital values of farms and of real estate in nearby towns and cities to decrease precipitously and would create major problems of financial stability and adjustment as well as much greater hardship and political resistance.[16] The period of phasing-out of protection would need to be much longer than has been traditional if these problems are to be avoided (Gray, 1993b).[17]

Relations between the EC and the United States are also stressed because of the European subsidy of Airbus Industrie. Here the U.S. position is that subsidies were in blatant contravention of the GATT while the European view was that Airbus "is a luxury which we must have" (Carbaugh, 1993, p. 407). The stress deriving from the Airbus subsidy is clearly an example of the European view that the benefits and costs of a GATT-ideal trading system would, because of the original huge competitive lead of the U.S. firms in large civil aircraft (among which Boeing Aircraft is pre-eminent), effectively shut the Europeans out of that market forever. The extant conditions governing world trade exceeded what was deemed tolerable. Only by subsidizing Airbus Industrie to the point at which it could become internationally viable without subsidy could Europe hope to break the U.S. monopoly. Airbus Industrie is, in effect, a high-technology infant industry and the benefits and costs of such a strategic trade policy exceed the domain of the static model that underlies the free-trade argument.

It is interesting to note that, although there have been numerous occasions where the objectives of the nations that now constitute the EC and those of the United States have been on a collision course, there has not been the sense of a lack of common objectives that

[15] All increases in *de facto* integration give rise to internal stress between gainers and losers. The greater that stress, the greater are the perceived short-run costs of additional international involvement.

[16] Protection of the agricultural sector may not result in perpetuation of old-style French agriculture as "big agriculture" will take over. While this may be true (and even inevitable), the possibility of retrogression in the world trading system derives from the perceived external pressure and political reaction.

[17] Putnam (1988) puts the issue of greater liberality of international economic relations into a two-level game-theoretic framework where the level I takes place at the MTNs and level II involves ratification and, at this level, interest groups fight to preserve their own interests as "features of nationhood".

seems to loom over the ongoing negotiations between Japan and the United States which revolve around so-called *structural impediments*. Negotiations under the Structural Impediments Initiative (SII: an outcome of the legislation authorizing super-301s) sought bilaterally to remove structural impediments to trade but nearly ran aground when some of the structures turned out to be integral parts of the Japanese national culture and were, effectively, non-negotiable.

Aside from the issues of saving and investment patterns and monopolistic practices or regulations (including the *keiretsu*) in both countries, the SII Working Group suggestions concerning the United States centered around improving U.S. competitiveness in the world economy through a reduction of the federal deficit, aggressive export promotion and improvements in workforce education and training.[18] This is in contrast to the requirements imposed on Japan, which amounted to a comprehensive reform of domestic land policies (including availability and quality of new housing), dramatic increases in public spending and a reform of the pricing mechanisms and distribution systems that impeded the Japanese consumer's ability to buy competitively-priced imports (U.S. Department of Commerce, 1990).[19] While there had existed pressures within Japan toward increases in public investment and consumer spending, the external pressures brought about considerable resentment at the implicit presumption that certain aspects of the Japanese culture and society were inherently incompatible with full membership in the international trading system.[20]

In the light of this it is not surprising that the first annual report of the SII Working Group reflected a great deal of disappointment at the lack of progress achieved during the first year of implementation of the program (U.S. Department of Commerce, 1991). The second

[18] All are consonant with the American culture but progress has not been easily apparent in any.

[19] It is hard to imagine that the United States would ever have confronted the French Government, still less the French people, with such a list.

[20] A study by the U.S.-Japan Business Council (1993) examined the openness of the Japanese financial services market concluding that the lack of transparency in government regulations and certain corporate behaviors ("cultural barriers") similar to those identified in the U.S. Department of Commerce (1990) study impeded U.S. firms' access to the market. However, it also indicated that many of the regulations governing innovation and the introduction of new financial products affected Japanese firms in the same manner as foreign firms, and that only to the extent that foreign firms possessed a lead in the development of such products would these regulations affect foreign firms in a discriminatory fashion.

annual report made some progress in enumerating new commitments on the part of both the U.S. and Japan in the areas already under negotiation (U.S. Department of Commerce, 1992), but it remains to be seen whether the third (and final) annual report will reflect a continued commitment to the bilateral effort.

Japan, like France and the EC, resists the degree of international involvement which the United States and the GATT would have exist. Japan has been a successful practitioner of strategic trade policy so that Japan has fared very well under the existing system.[21] Japan's current resistance to the degree of international involvement derives from its reluctance to adapt the time-honored Japanese way of doing things and to permit substantial penetration of home-country markets by foreign firms.

There is an evident presupposition in the United States regarding the lack of a common economic ideal between Japan and the United States that usually finds expression in the form of criticism of the Japanese economic system. On the other hand, the pressure towards complete globalization under the GATT ideal has been seen by one Japanese writer as "cultural imperialism" (Ishihara, 1991).[22] Western proponents of disciplinary measures against Japan (in the form of discriminating tariffs or super-301s) do not hesitate to cite aspects of the Japanese economic and social systems as evidence of type-2 and unduly obstructive type-3 barriers to trade. Kreinin (1988) has offered evidence that foreign subsidiaries of Japanese MNCs operate with a bias towards Japan in staffing offshore affiliates at the managerial level, in sourcing intermediate inputs and in acquiring their machinery and equipment. Lawrence (1991) has shown that the Japanese industrial organization based on vertically- and horizontally-integrated *keiretsu* has contributed to the difficulty of penetrating the Japanese market. Murphy (1989) views the Japanese business culture as too inward-looking for Japan to play a global economic role compatible with its power.

[21] Indeed, very few politicians or economists would fail to acknowledge that the world has prospered greatly during the post-war years and that the steady reduction in barriers to trade under the GATT has contributed greatly to that prosperity.

[22] The complaint of cultural imperialism is not limited to Japan. Servan-Schreiber's (1968) protest against U.S. MNCs was also based on the effect U.S. FDI into France had on French culture and, in November 1993, the same expression "the word GATT has become synonymous in France with marauding American commercial and cultural imperialism" was used in despairing the lack of flexibility in the U.S. international economic stance (Cohen, 1993). On a related topic, the President of China denounced external pressures (to continue most-favored nation status) on Chinese domestic political procedures (*The New York Times*, 20 November, 1993, p. A1).

While there can be no doubt that Japanese commercial and economic practices differ from those compatible with an open liberal trading system of the type advocated by the United States, two questions remain: "How much and how quickly should Japan be expected to change its institutional structure in order to remain a member of the global economy?" and "Should the world consider developing a new system with greater tolerance for nationhood?".

The problem is made more complex by the huge imbalances which the two nations have been running on current account. The United States has run a cumulative current-account deficit of close to $1 trillion[23] while Japan has acquired net foreign assets (run cumulative surpluses) of $650 billion in eleven years (1982-1992) (OECD, 1993). Japan cannot be held responsible for the United States profligacy but the benefits from international involvement have been much greater for Japan than would prevail under conditions of balanced current account. The undervaluation of the yen (relative to the rate of exchange compatible with balanced current account at full employment) has provided Japanese industry with another dimension of industrial or strategic trade policy. The relatively low value of the yen allows Japanese firms which compete in global markets to expand or maintain a large market share and to generate high profit rates. These profits provide Japanese firms with a large free cash flow which can be reinvested at the same time that their U.S. competitors are suffering from squeezed market shares, low profits and a cash flow inadequate for the requirements of global competition in industries that make heavy demands for R&D and similar mandated investments (Milberg and Gray, 1992). This virtuous cycle can be self-perpetuating as higher rates of investment in competitiveness-enhancing activities contribute to ever-larger market shares.[24]

[23] Note that the current deficits of the United States make that country the "importer of last resort" and give great importance to possible discrimination under 301s or super-301s.

[24] Note that this phenomenon in no way detracts from the enterprise and managerial skills exhibited by Japanese firms.

V. Possible solutions

The crux of the current concern is the disparity in the goals of the members of the Triad. Both Japan and France (the EC) reject the GATT ideal so forcefully pursued by the United States. The problems of obtaining a mutually-acceptable solution on what the world trading system should and should not be, are aggravated by the imbalances on current account – partly because they have served to make the system more tolerable to some nations and partly because the continuing deficits of the United States must, sooner or later, be curbed because of a lack of willing lenders and the ever-increasing fragility of the international financial system which the cumulative deficits bring about (Gray, 1992). When the United States can no longer play the role of the n^{th} country by running current deficits approximately equal to the sum of the target current balances of wouldbe surplus nations, then the desirability of continued constructive membership in the international system decreases substantially for many surplus countries – particularly for Japan.[25]

In recent years Japan has been using the liberal trading system to its own advantage: it has managed to avoid ceding its nationhood by preserving the relative integrity of its domestic markets[26] and, at the same time, has been managing (with the active assistance of U.S. profligacy) to run large current surpluses and to acquire foreign assets: the acquisition of assets slows any tendency for the yen to strengthen and for the surpluses to self-destruct. Because this policy cannot continue *sine die*, the essential conflict in goals between Japan and the United States must come to a head sooner or later and brilliant economic statesmanship may be needed to avoid serious financial disruption.

The European nations learned to prevent the erosion of their own interests and to accommodate themselves to the system by careful use of type-2 and type-3 measures and, in this way, have struck a pragmatic balance between their own nationhood desires in some sectors and the benefits of a relatively liberal stance in others.

[25] Japan cannot, of course, withdraw from the international trading system entirely.

[26] Some Japanese economists argue that there are no barriers to FDI in Japan but that foreign MNCs have merely to learn to cope with the Japanese bureaucracy. This seems, at most, a partial explanation.

Because of the intensity of the U.S. position (a complete unwillingness to countenance any permanent solution short of the GATT ideal), all agreements short of the GATT ideal are seen as temporary breathing spaces on the way to that goal. The thrust of this paper has been that, if important trading nations have degrees of tolerance to international involvement which are less than the GATT ideal or the targets of the next round of MTNs require, members of the Triad or, more broadly, members of the GATT must either find a compromise solution or risk a break in negotiations that could lead to crisis and serious retrogression. If the GATT ideal is not feasible and if the United States does not recognize that fact, intelligent approaches to the problem are still-born.[27]

Three possible paths to a second-best arrangement are offered for consideration: 1. the imposition of limits on imbalances on current account or on modified basic balance (within practical limits); 2. an agreement to pursue greater liberality with a very long time horizon; and 3. an agreement to recognize the right of any country *not to eliminate existing protection* for a certain sector but to require an undertaking *not to increase protection* on any sector. These are reviewed in turn.

1. The imposition of (approximate) balance on current account or modified basic balance (current account plus inward foreign direct investment plus acquisitions of untraded, illiquid financial assets)[28] would immediately reduce the desirability of international involvement for chronic surplus nations and could require severe adjustments in both the United States and Japan.[29] Any such measure would need to be phased in gradually. It would have the advantage of allowing any surplus nation its choice in the degree of involvement in the international system through adjusting either the value of exports and outward FDI or opening its domestic economy to foreign trade and inward FDI. Since the "untraded, illiquid financial assets" would probably be issued by the government of the deficit country, this

[27] It is an interesting comment on the U.S. position, that Clinton's Special Trade Representative has been described as "having scant academic or professional expertise on international trade ... He has approached trade not as an economist or diplomat but as a politically savvy lawyer seeking to strike deals for his client the President" (Bradsher, 1993, p. 58). The same comment could have been made in the Bush administration.

[28] Such assets might be deemed encashable if the debtor country ran a current surplus.

[29] The EC would be viewed as a single bloc in this schema.

would enable a nation to run a current deficit if it desired and if the surplus nation were willing to accept this form of debt.

2. Extending the time horizon of negotiations towards freer trade involves the non-renunciation of the GATT ideal but allows schemes to be drawn up which will have very long periods of time for adjustments to be made. It would release the agricultural problem from the question of financial destruction of farmers and the possible collapse of local financial institutions. It might be useful to consider instituting a moratorium on MTNs for ten years or so and to tie reductions in protection to macroeconomic conditions so that liberalization would only take place when the world economy was relatively prosperous.

3. The third solution would run serious risks of retrogression if it were not tightly constrained. As specified, the proposal would allow countries not to liberalize but would *not* allow countries to protect. In other words, it would maintain what has been achieved but would prevent erosion of nationhood by further liberalization of sensitive sectors. Such a scenario would take away from politicians the reason which permits them to resist domestic pressures for continued protection, but not the reason which allows them to argue against the reimposition of protection. Because this proposal amounts to an attempt to preserve the *status quo*, it could not be introduced without some qualification which would prevent Japan from continuing to enjoy the privileged position which it has achieved. It would need, therefore, to be introduced in tandem with the first proposal instituting approximately balanced payments.[30]

[30] This proposal would impair freedom of movement of financial capital in the sense that it would preclude chronic flows of financial capital in one direction so that the rate of exchange was affected for a long enough period to affect modified basic balance. Balanced two-way flows of financial capital would be unaffected.

VI. Conclusion

The introduction of nationhood variables into the model underlying the quest for the GATT ideal shows this ideal to be unattainable under present conditions. Such considerations were simply not relevant when the GATT ideal was inaugurated. It is the burst of *de facto* integration which has made nationhood a constraint of major significance. Unless politicians address the stress among the members of the GATT in something other than absolutes and confront the possibility that the international community needs a goal which is less ambitious than the GATT ideal, the world runs risks of serious retrogression with accompanying loss of prosperity and gains from trade.

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BANCA NAZIONALE DEL LAVORO QUARTERLY REVIEW

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