"REGIONAL INTEGRATION AND THE MULTILATERAL APPROACH"

A lecture delivered by John W. Evans, Director for Commercial Policy of GATT, on 20 February, before the Bologna Center of the School of Advanced International Studies of John Hopkins University

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When your Director invited me to speak to this seminar he suggested for my subject the field of customs unions in general and Benelux in particular. Quite frankly, I doubted my ability to add much to your knowledge of the first subject or my ability to keep you continuously amused if I were to devote my talk to the details of the Benelux Customs Union. I therefore asked Dr. Haines whether he would agree to a broadening of my subject so that I could roam across the whole field of regional economic integration and particularly explore the relationship between it and the multilateral approach to international economic co-operation. He readily and genially agreed to my amendment, but in the meantime I had begun to review some of the available literature on customs unions. Some of what I found seems sufficiently interesting for me to share it with you before getting down to the real subject of my remarks.

One of the studies I found in my hasty survey was a pamphlet published in 1949 by the Foundation for Foreign Affairs in Washington and written by Mr. Leonard Kohr. It is entitled "Customs Unions - A Tool for Peace". Some idea of its flavour may be obtained from the first two sentences of the introduction, which read as follows:

"There is only one field of international understanding in which the postwar period has produced concrete results. This is the field of customs unions".

When you consider that these words were written after the creation of the International Bank for Reconstruction and Development, the International Monetary Fund, the General Agreement on Tariffs and Trade and the Organization for European Economic Co-operation, you will understand what I mean when I refer to the "flavour" of this book.
Let me quote a little further from Mr. Kohr's introduction:

"The field of customs unions .. where real progress was achieved, was thoroughly ignored by the international press. The year 1948 saw not only the birth of the Benelux Customs Union, which alone obtained a publicity of some sort, but during the same year the Saar was economically joined with France; Italy and France signed an agreement for a customs union between their two countries; in South America the Gran Colombian countries signed the Quito Charter with the declared intention of forming a customs union among Colombia, Ecuador, Panama and Venezuela; in Africa Southern Rhodesia and the Union of South Africa signed an interim customs agreement whose final aim is the economic integration of South and Central African territories (and perhaps others) in something which may approach a Pan African customs union".

A little later in his study Mr. Kohr presents a table covering a still longer list of postwar projects with governmental backing, reinforced by more or less solemn agreements. For example, in South America he mentions the treaty signed between Argentina and Brazil in December 1941 which declared that the object of the two signatory countries was to arrive at the progressive establishment of free interchange. He also listed somewhat more explicit agreements between Argentina and Chile and Argentina and Paraguay in 1943.

If Mr. Kohr has been watching subsequent developments he will have seen that none of the prospective customs unions that he greeted in 1949 has come to fruition and that of those that were already in being only Benelux has survived. And if you have occasion to read his booklet you will find that Benelux does not yet conform to his own definition of a customs union.

My principal reason for these quotations is to remind myself during my remarks this morning of the dangers of too great self-assurance in a field that is strewn with hidden traps and the bleached skeletons of well conceived ventures.

But I have had another reason for drawing your attention to Mr. Kohr's booklet. I want to learn your reaction to an ingenious theory he has developed concerning the relationship between economic unification and political federation. Mr. Kohr indignantly (he is always indignant)
attacks the theory that customs unions tend to lead to political union. If he is right in his conclusion many of the most enthusiastic advocates of the political unification of Western Europe may have to reconsider the support they have given to any movement which promises to strengthen the economic ties uniting that area. They might find it impossible to maintain that tenet of their belief if they did not consider it a keystone in the structure of their basic creed - their faith in an ultimate Federation of Europe. But Mr. Kohr belongs to a different school. He believes that nationalism in the political sphere is stubborn and unalterable. He fears that if the idea were to get around that a customs union would lead to political unification there are few governments who would be prepared to risk the customs union approach.

How did Mr. Kohr arrive at his conclusion that customs unions, which under his definition are synonymous with economic unions, have not led and are not likely to lead to political union? He concedes that the most important customs union in history - the German Zollverein - was finally replaced by the complete political fusion of the German states, and he asserts that the two next most important customs unions - the Austro-Hungarian Customs Union and the South African Customs Union - also preceded political unification of the territories concerned. But he argues that in all three cases the political union was the result of non-economic forces and that the customs union actually delayed the inevitable through it did not prevent it. How? By making it possible for the weaker partners to obtain the benefits of economic integration while resisting political domination. Or to put it another way, by removing the economic incentives for the smaller states to subject themselves to a distasteful political anschluss.

Thus, we are led to the interesting conclusion that, although the only enduringly successful customs unions in the past have been followed by political union, these customs unions did not facilitate but actually retarded that development.
I have decided not to adopt this conclusion as my own but present it to you for your own consideration and hope that if it serves no other purpose it will remain with you as an illustration of the booby traps that lie in wait for anyone who accepts too easily any conclusions in this field. And I hope you will extend this scepticism to my own conclusions if I should slip into the error of reaching any. Remember that I am not a professor. To those of you who, like me, are merely students I would commend to your serious consideration the words of Henry Adams who said: "When one is not a professor one has not the right to make inept guesses, and when one is not a critic, one should not risk confusing a difficult question by baseless assumptions".

But even if I am to avoid conclusions, I need some sort of objective for my rambling comments this morning, and I propose at last to grapple with the larger theme which I proposed to your Director and to which he so graciously consented.

As I have said, my basic theme is the relationship between regional integration and multilateral international economic co-operation. To many, the mere mention of this relationship suggests conflict. There are advocates of the global approach—though not as many as there were in 1949—who believe that regional integration, if successful, can only have the result of dividing the world more disastrously than before into larger and even more antagonistic economic areas and that this result would be conducive neither to the economic health of the world nor to world peace. Similarly, some of the most ardent advocates of regional integration look upon any effort to reduce trade barriers and discrimination in the world at large as a deliberate move to prevent the people of Europe or of Scandinavia or of Central America from achieving their laudable aspirations for economic and political union.

The idea of conflict is implicit or explicit in many of the most responsible studies we can find on the subject of economic integration. I shall give you just one example. The secretariat of the Council of Europe has produced some of the most reasonable and most objective studies available on the subject of European integration. Anyone interested in the subject
owes it to himself to read such studies as that entitled "Low Tariff Club", published by the Secretariat General of the Council in 1952, or "The Present State of Economic Integration in Western Europe", published in May 1955. Yet in the latter study you will find the following statement:

"There is a contradiction between the very concept of European integration and the most-favoured-nation clause embodied in the GATT".

I could argue that this statement arises from a faulty comprehension both of the most-favoured-nation clause and of the GATT. But the only fact I want to impress on you now is that it comes from a highly respectable source. My purpose now is to explain the basis for this concept and to suggest a line of reasoning which may enable you to make up your own mind whether the conflict is real or imagined and if it is real whether it is irreconcilable or might yield to a compromise that would enable the world to obtain the benefits of both approaches.

(You will notice that I have just made an assumption. You may not agree with it but it is necessary for my argument and it happens to be one point on which both the schools to which I have just referred agree; that is, that there are benefits to be derived from an increase in the area in which competition is permitted to play its natural rôle, advantages to all from the sharing of a larger market, advantages from a truer division of labour, with the greater productivity and higher standards of living that these imply.)

For the purpose of my analysis I could use as an illustration of the global institution either the International Monetary Fund or the General Agreement on Tariffs and Trade. I will devote myself primarily to the latter both because it is more immediately concerned with trade than the IMF and because it happens to be the institution with which I have the greater familiarity.

To illustrate the regional approach is less simple. Here I propose to talk about Customs Unions, of which Benelux will serve as my principal illustration, Interim Agreements for customs unions, of which the only available example is the Agreement between South Africa and Southern Rhodesia, Regional Trade Liberalization, as illustrated by the OEEC, and the "Common Market" as exemplified by the European Coal and Steel Community.
In order to appraise the question of whether a conflict exists between the two approaches I will find it most convenient to examine first the global approach and to ask whether there is anything in it which is inherently inimical to regional integration. It is not my purpose to describe the GATT. I had the pleasure of doing so before many of you in October last year, but I will have to remind you of certain of its features. The most important concept in the GATT, aside from the stabilization of tariff levels, is the general most-favoured-nation treatment which it provides.

Contrary to the impression suggested by the quotation from the Council of Europe which I read a few minutes ago, the most-favoured-nation clause is not an invention of the GATT. Long before the General Agreement came into being the most-favoured-nation clause, in one form or another, was the most common provision of bilateral trade treaties and agreements. Most trading nations in the past have found it necessary for their own protection to assure themselves, in exchange for promises of reciprocal treatment, that their exports would not be treated less favourably in the markets of other countries than the exports of third countries with whom they compete. Thus, when any group of countries has given consideration to the benefits to be derived from setting up among them a regional trading arrangement, they have had either to measure the gains from the new arrangement against the losses they would incur by themselves losing most-favoured-nation benefits in the outside world or they have had to convince outside countries that their new arrangement should be recognized as a legitimate departure from their most-favoured-nation obligations. This dilemma, though it can be and often has been resolved, is a real one. But it is not created by the existence of multilateral international institutions. One authority, in describing early efforts to bring about a low tariff agreement among European countries, says that the failure of the Ouchy Convention of 1929 - nearly twenty years before GATT - was due to the unwillingness of certain countries to give up the privileges they enjoyed under the most-favoured-nation clause. This authority is none other than the Council of Europe in the study "Low Tariff Club", which I mentioned earlier this morning.
While the most-favoured-nation clause in the GATT is the direct descendant of the unconditional most-favoured-nation clause as enshrined for decades in bilateral agreements, in its multilateral context it has a significance, and perhaps even had a purpose, which goes beyond that of bilateral agreements. The original purpose behind its inclusion in bilateral agreements was simply to make sure that each signatory obtained the best possible treatment from his partner. If that treatment were better than the treatment accorded to others, so much the better. In its multilateral context, however, the significance of the clause goes deeper and is the most essential element in the basic idea that runs through the first experiment in multilateral co-operation in the field of trade. That idea is that discrimination in any form is likely to lead to more discrimination, and that in the long run all countries will suffer from the inevitable distortion of trade patterns which will arise out of discrimination, even though they may be the temporary beneficiaries. However, because there are undoubted benefits that can be obtained in the short run from reciprocal discrimination, the only way to prevent a country or a pair of countries from making the move that will set off this chain reaction is to obtain the simultaneous pledge of the largest possible number of trading countries that they will not discriminate against each other.

Now what place was left in this philosophy for regional integration? The drafters of the General Agreement were, of course, faced with the question of whether the benefits of regional integration could outweigh the danger that would be created if any breach in the pure doctrine of non-discrimination were permitted. And here their answer was clear. They said that the obligations of the General Agreement should not be allowed to prevent the formation of a complete customs union. (In accepting without reservation the customs union as a justified exception to the most-favoured-nation clause, the drafters of the GATT may have gone further than many economists would be willing to go. Professor Viner, for example, has pointed out that, even when the consolidated tariff rates of a new customs union are not higher than the average of the previous tariffs of the partners, the effect of the union can in certain cases be not to increase total trade but simply to divert it from one source to
another. And he has pointed out that the effect on the price levels and the living standards of the two partners will depend upon many variables, such as the relative height of the tariffs previously in force in the partner countries, the elasticity of demand and supply for the products concerned and the relative levels of costs in the partner countries.

At the same time that the CONTRACTING PARTIES welcomed the complete customs union they banned new preferential systems. Does this seem irrational to you? It has to others. For example, I can again cite the Council of Europe report on the status of European Economic Integration which says "it cannot be emphasized too strongly that preferential arrangements and a customs union are fundamentally of the same quality, their difference being actually only one of degree".

Now you may find that statement easier to comprehend than the GATT creed. The latter seems to say that total discrimination is good but partial discrimination is bad. A scholastic philosopher of the Middle Ages might have put it like this: total discrimination by partners in favour of each other is a step in the direction of true unity. Partial discrimination is disunity and leads to heresy.

Is this notion really irrational. I do not remember that the CONTRACTING PARTIES consciously worked out its logical defence, but if they had they could have brought to bear a number of arguments, some economic and others simply practical.

Let's look first at the economic. A customs union by definition covers all products exchanged between the partners. Therefore, unless they produce none of the same products there must be some increase in competition within the area when the customs union is formed. A larger market and truer division of labour are promoted.

A preferential system need not involve all the products of both partners and even where it does the level of the preferential rates may be selected by each partner so as to grant a preferred market to the other in those things not produced at home. There is no certainty of increased competition or of division of labour within the area.
On the practical side, we find an equally real distinction. No two countries are likely to enter lightly into a customs union, with the substantial sacrifice of freedom of action that it must mean not only in matters having to do with tariffs and other external commercial relations but in such domestic fields as internal taxes, fiscal and even labour policies. On the other hand, a preferential system need not entail any sacrifice by either partner. The preferences can be carefully selected so as to create no inconvenience. There need be no harmonization of internal policies or pooling of sovereignty. Thus, by drawing a line between customs unions and preferential areas, it is possible to apply objective criteria that will eliminate from our blessing arrangements that may turn out to be merely marriages - or even more tenuous liaisons - for temporary advantage.

The CONTRACTING PARTIES defined a customs union entitled to the exemption as one in which duties and other restrictive regulations of commerce are eliminated with respect to substantially all the trade between the constituent territories of the union and in which substantially the same duties and other regulations of commerce are applied by each member of the union to trade with outside countries. But customs unions, in order to obtain the benefit of the exemption, are subjected to certain standards, the most important being that the formation of the union should not result in tariffs or other restrictions against the trade of outside countries which would be higher on the average than those existing in the component territories before the formation of the union.

The CONTRACTING PARTIES also provided for a less courageous liaison - namely one between the partners in a so-called "free-trade area". At the time the General Agreement was written there was a school of thought which believed that combinations with many of the advantages of the customs union would be easier to establish if each partner were free to maintain his own level of restrictions against imports from outside countries. It was argued that such a departure from the classical concept of a customs union would make it unnecessary for either partner to make the sacrifice of sovereignty which is implicit in the acceptance of a common tariff policy toward the outside world. The GATT, therefore, provided the same exemption for a free-trade area as for a customs union.
So much for the exemption provided to customs unions and free-trade areas brought into the world full-grown. Allowance was also made for welcoming the infant that might need to be nurtured slowly into manhood. The GATT provided that the exemption would also extend to an interim agreement leading to the formation of a customs union or free-trade area. But in this case the partners were required to submit to the CONTRACTING PARTIES a plan and schedule for the completion of the union, and were required to abandon the interim agreement if the CONTRACTING PARTIES should find that the plan and schedule were not likely to result in the desired union within a reasonable period.

To the catalogue of safety valves provided in the General Agreement I should add one more. The Agreement also provides that in special circumstances the CONTRACTING PARTIES may by a two-thirds vote waive any obligation under the General Agreement. In practice, for reasons I will soon make clear, this provision has proved more important from the point of view of European integration than the explicit provisions in the Agreement concerning customs unions, free-trade areas, and interim agreements.

Now let us look briefly at the way the General Agreement has operated in connection with each of the basic forms of regional economic integration with which we have had any experience since the General Agreement came into force.

The only postwar model of a customs union available to us is Benelux. It happens that the Benelux union had already been decided upon at the time that the CONTRACTING PARTIES were negotiating the first round of tariff concessions in 1947 and before the text of the General Agreement had been agreed upon. Benelux, by general consent, was represented at these negotiations as a unit. Therefore, although Belgium, the Netherlands and Luxemburg are separate contracting parties to the General Agreement there is only one tariff schedule for the three, and Benelux was never subjected to the procedural provisions in the GATT which would apply to any newly formed customs union.

If Benelux were to be examined by the CONTRACTING PARTIES to determine whether it conforms to the requirements of a customs union as defined in the GATT here are some of the facts that would have to be considered. All
tariffs as such have been eliminated between the partners, and a common tariff is charged by all parts of the union towards the outside world. Therefore, if ordinary customs duties were the only concern there can be no doubt that Benelux is a complete and very lusty customs union. So far as quantitative restrictions for balance-of-payments purposes are concerned Benelux also fits the definition. While such restrictions have been maintained toward the outside world, notably toward imports from the dollar area, they do not exist between the partners. There is, however, an important area of trade in which Benelux has not yet attained the full status of a true customs union according to the classical definition. The Netherlands is a country which, as a result partly of natural circumstances and partly of deliberate governmental direction, has a low level of production costs in agriculture. The agricultural producers of Belgium, on the other hand, depend for their existence not only upon protection against imports from the outside world but, for the moment, require such protection even more urgently against imports from The Netherlands. The Belgium-Luxembourg union on the one hand and The Netherlands on the other recently concluded an agreement in accordance with which the agricultural policies and costs within the entire union are to be brought into harmony over a period of seven years. In the meantime, protection is being afforded to the agriculture of the higher cost partner by so-called equalization charges and by a variety of administrative controls. Before agricultural products can be exported from The Netherlands to Belgium the two Governments agree on a charge to be paid by the importer, which is based on the calculated disparity of costs in the two countries. The revenue derived is divided between the two Governments. This system is reinforced by the existence in The Netherlands of a governmental monopoly on foreign trade in agricultural products.

It may therefore be too early to refer to Benelux as a full customs union. But there can be no doubt that immense progress has been made since 1947 in the development of most of the features of a customs union and many of the features of an economic union as well. There can be little doubt that the CONTRACTING PARTIES if they had had to decide whether Benelux should be entitled to exemption from the most-favoured-nation clause would
have granted their approval to an entente which is becoming increasingly closer and in which genuine efforts are being made to eliminate the last stubborn impediments to total economic integration.

I have mentioned that the GATT also provided for arrangements known as free-trade areas. I do not know of any important free-trade area in history, and there has been only one instance in which a contracting party has made use of this exception to the most-favoured-nation principle, and this is of no particular interest to the subject we are considering here today. The free-trade area of Nicaragua and El Salvador may be simply the minor exception to prove the general rule that the high hopes that were held for free-trade areas when the GATT was drafted have not come to fruition. The theory that a free-trade area would be easier to achieve than a customs union, because it avoided the difficulties involved in the establishment of a common tariff and common policies toward the outside world, has no important accomplishment to its credit.

There is considerably more to be said for the practical wisdom shown by the drafters of the GATT in providing the flexibility that would permit an interim agreement designed to result in an eventual customs union. Fairly early in the history of GATT, Southern Rhodesia and the Union of South Africa submitted to the CONTRACTING PARTIES an agreement which was designed to bring about an eventual full customs union. In its early stages this arrangement merely established wider margins of preference between the two territories than had previously existed. But the Agreement itself established inter-governmental machinery designed to bring about the progressive elimination of the remaining tariffs between the two parties and the eventual accomplishment of a uniform tariff toward the outside world. But long before any substantial progress had been achieved towards its ultimate objective, Southern Rhodesia decided to join in political federation with Northern Rhodesia and the Territory of Nyasaland, and the formation of this Federation led to the abrogation of the earlier agreement by mutual consent.
Thus far, as you will see, the provisions in the GATT that were explicitly designed to facilitate regional integration have had little relationship to the major developments in Western Europe. I have sketched them for you, however, in order to underline the fact that these provisions were available if the countries of Western Europe had chosen to follow any of the paths which so many people expected in the early postwar years. In practice the developments that have taken place in the direction of European integration have been quite different, and it is in connection with these more unexpected trends that the relationship between regionalism and the global approach can be more usefully examined.

As my first case study, let me take the Organization for European Economic Co-operation. No one would claim for the OEEC that it was intended to be or has become either a customs union, a free-trade area or an interim agreement leading toward one or the other. But with its financial arm, the EPU, it has proved to be one of the most important institutions looking toward closer economic co-operation among the countries of Western Europe.

Up to the present time there has been no open conflict between the activities of the OEEC and the most-favoured-nation obligations of OEEC members toward outside countries, but it would be misleading to ignore the fact that the potentiality of conflict has always been present under the surface. At the time the OEEC was formed, its members generally were in balance-of-payments difficulties. This meant that their right to use quantitative restrictions for the protection of their gold and foreign exchange reserves was recognized not only by international public opinion but explicitly by the GATT. Furthermore, their right to administer those restrictions in a discriminatory way was also recognized where required by the nature of those payments difficulties. You are all familiar with the OEEC liberalization exercise under which the members have agreed to the progressive elimination of quantitative restrictions against imports from each other, whether or not they are prepared to adopt a parallel liberalization of their imports from outside the area. So
long as there has been a clear distinction between the payments problem within the area that with outside countries it has been possible to defend this discrimination on balance-of-payments grounds. It can be argued with considerable force that the existence of a common clearing mechanism substantially reduced the need for quantitative restrictions against the imports of member countries without providing a parallel reduction in the need for restrictions on imports from outside.

This argument becomes more difficult to sustain as the absolute need for any balance-of-payments restrictions diminishes. I am not being facetious when I say that part of the alarm that was felt by a number of European countries at what appeared in 1954 to be a real threat of general currency convertibility may be partly attributable to the question this would raise as to their right to continue to discriminate in favour of each other.

In the tariff field, as you probably know, the activities of the OEEC have so far been entirely in the realm of discussion. I believe it is no secret that the OEEC has groped with the problem of whether that organization could be used for the reduction within Europe of the most important barrier to trade except quantitative restrictions - namely, tariffs. The only concrete result of these discussions, at least that is known to the public, is that the members have agreed to prepare lists of those commodities which they import largely from member countries. Presumably, this emphasis on so-called European lists is brought about at least in part by the existence of their most-favoured-nation obligations both under the GATT and in bilateral agreements. If it were not for these most-favoured-nation obligations, of course, the members of the OEEC might negotiate among themselves reductions in their tariffs towards each other without any obligation to extend the benefits to outside countries. But faced with those obligations, a purely European tariff negotiation would either result in the extension of tariff reduction to outside countries without compensation or would have to be limited to those commodities of which other European countries were the predominant suppliers.
Before I leave the OEEC I want to make it clear that the potential conflict between it and the principles of the GATT to which I refer is not necessarily antagonism. OEEC observers are invited to all meetings of the CONTRACTING PARTIES and frequently take an active part in GATT deliberations, and the GATT has also taken advantage of its standing invitation to attend OEEC meetings both at the ministerial and at the technical level. During the current round of tariff negotiations in Geneva among contracting parties to the GATT, and OEEC observer has been invited to attend most of the secret Committee meetings to which even non-participating contracting parties have not been invited. The OEEC member countries participating in these negotiations frequently hold meetings of their own in which they discuss the co-ordination of their policies, and the Executive Secretary of the CONTRACTING PARTIES, or his representative, has been invited to attend these OEEC meetings.

By far the most important remaining economic institution operating in the field of European integration is the Coal and Steel Community. Here we are dealing with an arrangement which does not fall into the pattern foreseen by the CONTRACTING PARTIES and was not automatically exempted from the obligations of non-discrimination in the GATT. When the Benelux countries, France, Germany and Italy were considering the formation of the Community they recognized this fact and brought the case to the CONTRACTING PARTIES. The CONTRACTING PARTIES applied to this specific problem the same philosophy that had guided them in drafting the original Agreement, namely, an unwillingness to permit GATT obligations to stand in the way of integration when the countries concerned were ready to prove the seriousness of their intentions by exposing their economies to greater competition and by sacrificing a part of their sovereignty. They therefore granted a waiver to the Coal and Steel Community. This waiver has strings attached. The Member States of the Community are required to report annually to the CONTRACTING PARTIES on those operations of the Authority that relate to certain specific pledges which they made at the time they obtained the waiver. Without going into detail, these pledges were of three kinds.
The first is the counterpart of a requirement relating to customs unions, namely that the incidence of the duties charged against the outside world should not be higher on the whole than those charged before. But in this case the Member States pledged that their harmonized duties would be lower on the average than the duties prevailing at the time of the waiver.

The second pledge relates to the accomplishment of the Community's own objectives within the shortest possible time. The CONTRACTING PARTIES were willing to waive the most-favoured-nation obligations the Member States had undertaken toward them in exchange for the assurance that a true common market would in fact be achieved. In this respect, their preoccupation was the same as that which they had had when they wrote the exemption for interim agreements - an aversion to granting an exception for a union that might prove merely a disguise for a new preferential system and that would never reach the ultimate objective of a common market. As you know, the Coal and Steel Community has developed its common market in stages but rapidly. It first achieved a common market in coal. This was followed by a common market in ordinary steel and has now been achieved in the field of special steels. The only important exception to the full achievement of the common market has been the exception in the Treaty itself which permits Italy to maintain coke and steel tariffs against other members of the Community during the "transitional period". When this remaining aberration has been removed the Community will have entirely fulfilled one set of conditions prescribed by the CONTRACTING PARTIES.

The third general category of assurances that the CONTRACTING PARTIES required had to do with the treatment to be accorded to countries outside the Community. During the consideration of the annual reports of the Member States, the CONTRACTING PARTIES have delved closely into the export pricing policies of the Community, into the action being taken toward the suppression of private cartels and combines within the Community and into the restriction by the Community on exports of iron and steel scrap.
This may be as good a point as any for a slight digression, still on the subject of the Coal and Steel Community. You may have asked yourself why the CONTRACTING PARTIES, who have shown an aversion to partial discrimination in the form of new preferential systems, were prepared to accept this sort of departure from the complete customs union. As I have pointed out, the most important difference between a customs union and a preferential system is that the latter need not involve the total elimination of restrictions on any commodity, and that the commodities on which preferential treatment is granted can be selected in such a way that no increased competition results. I cannot say how carefully the CONTRACTING PARTIES analysed the economic difference between a preferential system and the Coal and Steel Community. But if they did they would have found that the Coal and Steel Community is economically closer to a customs union. It is true that the elimination of restrictions within the area falls far short of covering all the trade between the Member States. But, after the transitional period, all those Member States will be granting to all the other Member States the same free entry on the same list of commodities. Since no one of the Members is the sole producer of any of the products covered by the Community all of the Members will be subject to increased competition from imports. So long as an arrangement of this kind comprises such closely related products as those of the coal and steel industry and so long as each of those products is produced by two or more Members of the Community, advantages very similar to those of a true customs union should result. It would be theoretically possible, however, to devise an arrangement which has the outward trappings of a community or common market but which has no resemblance to a customs union. This would be the case if the members were to select for their common market a group of commodities each of which was produced by only one of the members.

The close collaboration between the OEEC and the GATT is paralleled by collaboration between the Coal and Steel Community and the CONTRACTING PARTIES. The constitutional situation in the latter case, however, is unique. All the Member States of the Community are contracting parties.
to the GATT. There is, therefore, no need for a separate representation of the Community as a whole in GATT deliberations. But, as you know, the High Authority of the Coal and Steel Community is in many respects a sovereign body which is empowered to act internationally without the approval of the Member States and, in fact, to require Member States to implement certain of its decisions. Therefore, in addition to the direct representation which the Members of the Community have in the GATT, the High Authority itself is invited to be represented in GATT meetings. For the purpose of the present tariff negotiations in Geneva the Council has explicitly authorized the High Authority to act as their negotiator with Austria, and to make it possible for the High Authority to carry out this mandate the negotiating contracting parties have admitted the Coal and Steel Community to their deliberations as a full negotiator, with all the privileges of any government participating in the negotiations.

I made a pledge at the beginning of this talk that I would do my best to avoid the error of reaching firm conclusions or making predictions. I propose, however, to suggest a few basic questions that need answering. I hope that in my remarks up to this point I may have provided you with some of the facts and analysis that you need to enable you to reach your own conclusions. But I also propose to depart slightly from my principles by telling you my own approach to each of these questions. I do not make any claim that my answers are necessarily right.

The first important question to answer, it seems to me, is whether there is a necessary conflict between the regional approach to economic integration on the one hand and the concept of multilateral co-operation in the reduction of trade barriers; or, stated differently but amounting to the same thing, between regional integration and non-discrimination.

I would suggest that the answer to this must depend to some extent on the form of regional arrangement proposed and the methods adopted for achieving it. As I have pointed out, exceptions to the pure concept of non-discrimination do not necessarily endanger the fabric of world co-operation if they are confined within recognized and easily defined limits. Clearly the use of the true customs union is so confined and
does not create the danger of a stampede in the direction of discriminatory agreements, bilateral trade balancing, encouragement of inefficient production and lower standards of living. The variations on the pure customs union which have been recognized in the GATT can also be so confined. The free-trade area is subject to as precise and objective definition as the customs union. The extension of the exception to interim agreements looking toward either a customs or a free-trade area requires more subjective judgment but here the existence of an international organization can keep under review the progress of such an agreement toward its ultimate objective should prevent interim agreements from degenerating into mere preferential arrangements.

But the path toward economic integration that has the strongest support in Europe today, however, does not take the form of any of these three recognized exceptions but rather of an extension of the idea of which the Coal and Steel Community is the prototype—that is, the creation of common European markets for specified commodities.

Now it is clear that any such arrangements would necessarily clash with the GATT obligations unless the CONTRACTING PARTIES should be asked for and should grant a waiver comparable with the waiver granted to the Coal and Steel Community. As I have already indicated, there are certain safeguards built into the Community concept which I have every reason to believe would influence the CONTRACTING PARTIES in making a decision. I am not able to predict the positions that governments will actually take but I would suggest that in granting the waiver to the ECSC the CONTRACTING PARTIES have recognized in principle that the creation of a common market, reinforced by an actual delegation of authority by the Member States has the merits of a customs union, though within a more restricted sphere and that, like a customs union, it is both sufficiently difficult to attain and sufficiently easy to define that its recognition would not endanger the basic objectives of the General Agreement. If this appraisal is correct, it would seem fair to expect that the CONTRACTING PARTIES would not permit the General Agreement to stand in the way of such a move toward economic integration so long as it can clearly be distinguished from the simple exchange of preferential advantages.
To sum up this part of the answer, it appears to me that the existence of an international institution and international obligations has not so far impeded the development of any organized move toward genuine regional economic integration nor does it appear likely to do so in the future. In fact - and this is an interesting aspect of the question that seems often to have been overlooked - the existence of an international institution can actually be helpful in removing obstacles to the creation of customs unions or common markets. You can understand this point if you will consider the problems that would have had to be faced by the Member States of the Coal and Steel Community if they had had to negotiate releases from most-favoured-nation obligations separately with thirty-six governments instead of dealing simultaneously with those governments in the multilateral form provided by the GATT.

Thus, my own answer would be that the existence of international institutions and obligations will not prevent and may even facilitate the development of regional integration. And I think I have already declared my faith that genuine regional integration, if undertaken responsibly and with regard to international obligations need not endanger the further development of co-operation on a world-wide scale.

Even if we conclude, though, that conflict is avoidable, we ought to address ourselves to a more difficult question - are both approaches desirable or should one be entirely superseded by the other? My answer to this question must be even less categorical than that to the previous one. If we consider it theoretically we could develop volumes of theology without any clear conclusion. That complete global integration would be preferable to integration on a regional basis even the more ardent advocates of regionalism would probably agree. The important question is not - Which is the more desirable objective? but rather - Which has the greater chance of attainment? A widespread reduction of trade barriers, with a rigid application of the principle of non-discrimination; or a system of larger regional markets, with the principle of non-discrimination recognized as between regions? Economic analysis will give us only limited help in reaching an answer.
Perhaps we can get some help by looking at the progress that has been achieved so far by regionalism on the one hand and internationalism on the other. Again, the answer will be very inconclusive.

The GATT has made substantial progress in the reduction of tariffs and in the stabilization of tariff rates over a large area. But a great deal remains to be done, and we have to recognize that each successive round of tariff negotiations has made a less substantial contribution than the preceding round to the general reduction of import duties. The GATT has not yet found an acceptable solution to the serious problem of how to achieve through the process of negotiation a greater equality between the tariffs of countries who began with relatively low rates and those who began with higher rates. In the field of quantitative restrictions, the approach of the GATT has been in general to require their elimination when not needed for balance-of-payments difficulties. Under this rule some contracting parties who have liquidated their balance-of-payments difficulties have entirely removed these restrictions; many others have removed certain commodities from the lists of those requiring licences and have reduced the average level of the restrictions that remain. But the most difficult test, which will be reached when general currency convertibility is attained, has not yet had to be faced.

If we take the OEEC and the ECSC as the prototypes of the two most important efforts toward closer regional co-operation, we find a similar picture. It is true that the ECSC has made impressive progress toward the achievement of one of its goals, having achieved a common market for the products covered by the treaty, which the exception of the Italian coke and steel duties. But I believe I am right in saying that nothing whatever has been accomplished toward the harmonization of tariffs toward the outside world. And a number of the other objectives of the Community such as the entire elimination of combines, the complete mobility of labour and the elimination of both subsidies and export restrictions have still be achieved. Furthermore, if the Community is measured in terms of its contribution to the total economic integration of Western Europe that contribution is necessarily limited both by the number of countries involved and by the restricted list of commodities covered.
An appraisal of the accomplishments of the OEEC is more complicated. Since its official objective has not been total European integration it can hardly be charged with failure because of lack of accomplishment in that direction. Within its more limited terms of reference its achievements have undoubtedly been great. With its companion body, the EPU, it has made a measurable contribution to the recovery of Western Europe and to the reduction of some of the most onerous impediments to trade within the area, namely exchange restrictions and quantitative restrictions maintained for balance-of-payments reasons. Its experience with liberalization, however, has been somewhat reminiscent of that of the GATT in the field of tariffs. The liberalization of trade, when measured statistically, made rapid progress during the first years of the OEEC attack on the problem but more recently has slowed down nearly to a standstill. During 1954-55 the percentage of liberalized trade rose only from 81.5 to 84 per cent for the OEEC countries as a whole. There have been periods of fairly rapid progress and periods of retrogression. Some countries have made substantially less contribution than the average. In the case of France, liberalization has been accompanied by the imposition of a so-called "compensation tax" on imports. Furthermore, the OEEC statistical method of arriving at the percentage of liberalization conceals some highly important exceptions. The exclusion of imports by governments exaggerates the percentage of accomplishment in general and particularly helps to conceal the very meagre progress that has been made in the elimination of restrictions on agricultural trade. More important than these facts, however, is the fact that the imports that have been liberalized so far have tended to be those that give rise to the least terror in the hearts of domestic producers. Many of the restrictions that have been most damaging to intra-European trade remain.

Some member countries are also interested in using the OEEC as a vehicle for the reduction of tariffs, but the only accomplishment in this direction so far has been discussion and the collection of facts. There is a chance that tariff negotiations among the OEEC countries - possibly carried out within the framework of the GATT - may eventually be chalked up to the credit of the OEEC, but our present appraisal must be based on the present - not the future.
What this inconclusive appraisal seems to suggest is that a real contribution has been made to the reduction of trade barriers of one kind or other by all the institutions I have mentioned; by Benelux, by the ECSC and by the OEEC in their respective regional fields and by the GATT in a broader context. It would be hard to sustain, on the basis of these facts, a contention that one approach is right and the others necessarily wrong. If this is so we are not required to try to pick the best and demand the abolition of the others unless it can be shown that the existence of one institution has retarded progress by another, and for such a contention I have been able to find no supporting evidence. There seems no reason to believe that if any one of these institutions had been eliminated the others would have moved ahead with appreciably more speed. This suggests to me that if the statesmen of Western Europe were to choose a single avenue toward economic co-operation and reject all other approaches, progress toward the ultimate goal or goals would be slower than if all are given a chance. The countries of Europe can seek closer economic ties, and no irreparable harm will be done to the broader effort on the international front, if they will keep in mind the importance of maintaining fair and amicable relations with non-European countries and will submit to such international restraint as is necessary to that end.

Fortunately, the statesmen who are making the decisions in these fields are not divided into two warring camps. However hotly the debate may rage in academic circles, and however insistently one institution or other may clamour for the undivided affections of governments, those governments have found ways of living in a state of happy polygamy. They have embraced, and probably will continue to embrace, new experiments in regional integration while showing on the whole a healthy respect for the past and future benefits to be obtained through international co-operation in its broadest sense.