U.S. DIPLOMACY RELATING TO TRADE AND INVESTMENT IN THE EC

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To Dadi - who was always there whenever I needed her.

"To live in hearts we leave behind,
Is not to die."

- Campbell - "Hallowed Ground"

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CERTIFICATE

Certified that the dissertation entitled **"U.S. DIPLOMACY RELATING TO TRADE AND INVESTMENT IN THE EC"** by **ABHA SHANKAR** for the degree of **MASTER OF PHILOSOPHY** is an original work and has not been previously submitted for any other degree of this or any other University.

We recommend this dissertation to be placed before the examiners for evaluation.

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The errors and omissions, however, are solely mine.

CONTENTS

PREFACE

My dissertation is largely based on a distillation of written and oral information of the changes that are taking place in the EC and of their implications for U.S. interests. This work incorporates my reflections and perceptions regarding the future prospects of the U.S. trade with and investment in the EC. It has been my goal to focus on how U.S. interest originated in Western Europe, the extent of U.S. trade with and investment in the EC and the negotiations both at the bilateral and multilateral levels, the latter ofcourse taking place under the purview of the GATT. This study is primarily analytical in nature and is based on secondary sources.

This is a perplexing topic which is not static, but dynamic. Consequently, during the course of preparing the manuscript, several changes have taken place which unfortunately, I have been unable to incorporate. I have, however, tried my best to present, as lucid a picture as possible, on the problems which have beset the transatlantic alliance in the post-cold war world and the efforts whichd are being made on both the bilateral as well as the multilateral planes to resolve them.

Chapter I deals with the origin of U.S. trade and investment interests in the EC. I have analysed the evolvement of the "Atlantic alliance" from the days of amiability in the post second-world war period to that of acrimony in the contemporary times. The U.S. was directed by strategic considerations in enabling European integration to come about. Things had remained frictionless for some time but differences began to crop up with the American intervention in Vietnam and the oil crisis of 1973 following the Arab-Israeli conflict. Later with the cessation of the cold war and the demise of the Soviet Unit, the EC became more assertive with regard to its economic and political rights as it no longer was in fear of communist expansionism and aggression.

Chapter II deals with the different issues of dispute between the U.S. and EC. I have analysed with care the array of highly specific issues that have arisen or are likely to arise, between the U.S. and EC. they are reciprocity, national treatment, national quotas, technical harmonization, standard-setting procedures, government procurement et. al. I have examined the problems which will be faced by the U.S. because of the EC moving aggressively to complete its internal market - the Europe 1992 process. I have further explored in detail how the U.S. trade and investment will be affected because of the EC - 1992? Whether a unified Europe will pose a powerful challenge for the U.S. in world markets and whether EC-1992 will be detrimental to U.S. exports? The five sectors of the U.S. economy, most likely to be affected, will be banking and securities, agriculture, automobiles, telecommunications and semi-conductors, have been assayed thoroughly by me.

Chapter III examines the different negotiating strategies open to the U.S. and from there selects the negotiating st rategy that will best serve U.S. economic interests in Europe. I have analysed three approaches to negotiations over U.S. trade with Europe. The first is a global approach seeking to use the EC Single Market Programme and GATT negotiations to achieve further progress towards opening markets world-wide. The second is a more narrow, nationalist approach designed to deal primarily with issues of particular interest to the U.S., giving priority where necessary to bilateral talks and solutions. The third is an Atlantic approach involving the negotiations of an exclusive US-Community deal. This may be called a regional approach as opposed to the global and national approach. The U.S. might try to negotiate an EFTA-type (European Free Trade Agreement) deal with the Community. I have spoken of the increasing trend towards regionalism whose manifestation can be seen in the mushrooming of regional trading blocs accross the globe. The U.S., for instance, has gone on to create the North American Free Trade Area (NAFTA) that includes Canada, the U.S. and Mexico, in order to make up for its lost economic clout in Europe. I have suggested measures that should be taken up to revitalize and resuscitate the GATT, which definitely is in the need of heavy repairs. The GATT should be restructured to deal effectively with contemporary issues like TRIPS, TRIMS, GATS. I hold that the proliferation of trading blocs is inevitable. I have not denied their right to exist, but I feel that they should be made GATT consistent i.e. they should conform to the basic principles of multipled global trade in order to bring about a fair and equitable world economic order. The GATT, I believe, should remain as the predominant adjudicating body which overseas that the regional economic blocs are working in consonance with each other.

Finally, in the conclusions, I have examined the three hypotheses. I had framed at the beginning of my study viz.,

(1) To combat its economic ills, the ideologically free-trade-oriented and market-oriented economy of the U.S. will give way to greater protectionism. It is the internal economic problems of recession and declining competitiveness which has compelled the U.S. to resort to a more aggressive trade diplomacy.

(2) Through hard bargaining the issues coming up between the EC and the U.S. will be resolved to an extent.

(3) To make up for its lost economic clout in Europe, the U.S. will give added attention to upcoming regional economic organizations, like the NAFTA. There will be an increasing trend towards regionalism.

After analysing these hypotheses, to see whether they have been proved or not, I have arrived at my conclusions.

CHAPTER - I

ORIGIN OF U.S. ECONOMIC INTERESTS IN EUROPE

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The aftermath of the Second World War furnished the driving force for a United Europe. The U.S. publicly applauded every postwar European effort towrads integration and for good reason.[1] Europe grew into a strong political and military ally; American business flourished in the Common Market. Successive U.S. Presidents Truman, Eisenhower, Kennedy and Johnson had publicly expressed the urgency of political, economic and military integration of Western Europe.[2] The U.S. policy in those years was primarily guided by strategic considerations. An economically viable and politically stable western Europe would enable the Atlantic alliance to withstand Soviet expansion. Further European unification would provide the ground for a Franco-German rapproachment and diminish the danger of a third European War.[3]

To the U.S., Western Europe has been a major concern primarily for the reasons.[4] First, the physical security of Europe got top priority on the U.S. agenda because of the decisive stakes Europe has in the balance of power for the U.S. In order to contain the Soviet threat, the U.S. has deployed forces and tactical nuclear weapons in Western Europe. Second, an economically prosperous Europe will provide immense opportunities to American trade and investment there besides an economically weak Europe, would serve as a breeding ground for communism, especially since, the communist parties had a stronghold in the European States of France and Italy. Third, the Atlantic alliance would serve as an effective platform to deal with Moscow besides Washington also hoped to count on the cooperation of these allies (and also Japan) in influencing various international organisations. The U.N. GATT, etc. - that provide the framework of global economic and political activities.

American policy from the late 40s to the early 60s strongly encouraged the West Europeans to go beyond the nation-state. The U.S. wanted the Europeans to unite because it felt a more united partner would be more effective and reliable than a less united one. Overall support seemed to be more achievable through unity than through fragmentation. Of course the Americans had to concede to regional protectionism and non-liberal inward working policies of Western Europe as a price to be paid for a more cohesive ally. This was the prime reason for the U.S. to turn a blind eye to protectionist measures like the Common Agricultural Policy (CAP). Further, the U.S. saw in a vast open market the possibility of reaping rich harvests through trade and investment there. U.S. business interests had expanded in Western Europe so much so that Servan Schreiber described American industries in Europe as the second largest industrial force in the world, second only to America's over.[5]

U.S.-West European trade relations could never have been on a reciprocal basis if Europe had to revive from the rubbles to which it had been reduced during the war. West Europe needed greater economic integration with the U.S., but on a favoured basis. This was because West Europe needed to shield its domestic economies from unrestricted competition from the U.S. Thus in order to facilitate economic growth in Europe, the U.S. had to open its markets to European imports while at the same time restricting its own exports to Europe.[6]

The history of postwar American foreign economic policy begins from the mid-1930s with the adoption by Cordell Hull, Secretary of State in Roosevelt administration, of the "Reciprocal Trade Agreement Act", which was primarily motivated by America's recognition of its own economic strength and the realization of its responsibility to contribute actively towards the better functioning of the global economy by doing away with traditional and protectionism.[7] The American aim was to bring about a more fair and equitable world order. When World War II further emphasized the preponderance of American economic power, the U.S. responsibility to being about a liberal global order was further reinforced. This resulted in the emergence of the "Bretton Woods period". The world monetary system which prevailed from the end of the second World War until 1971 is often referred to as the Bretton Woods System after the name of the meeting place for the conference held in 1944 which established the International Monetary System.

In the Bretton Woods period, the U.S. used its great war time and post war influence to turn back the trend towards economic nationalism which had taken a stronghold during the inter-war years. The primary purpose was to create an integrated world economy which functioned automatically under the aegis of the forces of demand and supply and which was thereby free from the interference of national governments.[8]

The Bretton Woods System, that the IMF was to supervise, rested on two pillars; the maintenance of stable exchange rates and a multilateral credit system. The IMF would organise the system, consult with the member contries about exchange-rate changes and create international liquidity when needed.[9]

In the 1950s and 1960s, the world economy was becoming increasingly integrated, because of the integration of capital markets among leading industrial countries. During this period countries tended to bypass the IMF. In times of crisis, the Central banks of the developed countries cooperated directly, outside the auspices of the IMF. During the two decades, the reason for the inactivity of the Fund, could be explained by the dominance of the United States. The country was the most important source of international liquidity. It was not the IMF that provided this increase in liquidity, but the growth of foreign holdings of U.S. dollars. With the co-operation of a few other industrial nations it could manoeuvre the development of the international system. During this span the IMF was relegated to the place of playing second fiddle and catering to the whims of the industrialized countries. The developed world felt that it could manage its own affairs better by direct cooperation. However, the collapse of the set up in 1971 and the adoption of a system of floating exchange rates affirmed that no single country could any longer have the charge of the development of the international monetary system.[10]

Despite the dollar playing a pivotal role in the international monetary system since the Second World war, the important role played by gold in the post-war period cannot be marginalised. Large amounts of gold flowed to the U.S. during the 1930s and the Second World War. The U.S. established a stable price of gold by selling and buying it at approx $35 per ounce. From the beginning of the 1930s to the beginning of the 1950s the U.S. acquired almost $20 billion worth of gold and the U.S. holding at Fort Knox amounted to roughly three-quarters of the total monetary gold stock in the world at a value of $25 billion.[11]

Other countries, like those of Japan and Western Europe, began to rebuild their war-torn economies and tried to enlarge their depleted reserves of gold and foreign currency. These countries experienced a comeback with an economic resurgence and improvement in their external balance. West Germany, Belgium and Switzerland, for instance, had acquired substantial reserves in 1958. In the late 1950s and early 1960s, Italy and France generated large export surpluses that enabled them to rebuild their gold reserves.[12] A point to note here is that it was only because the U.S. was running deficits that its main trading partners - the leading industrial countries outside the communist block-could generate surpluses which could then be transformed into holdings of gold and foreign exchange.

The deficits in the U.S. balance of payments were intimately connected with the international flows of gold. At the beginning of the 1950s the value of the U.S. gold stock amounted to $ 25 billion. In 1958 its value was $22 billion. In that year came the first massive outflow of gold from the U.S. The flow continued unabated. At the beginning of the 1968 gold stocks were down to $10.5 billion. In August 1971 President Nixon declared that the dollar was no longer backed by gold. At that time the U.S. gold stock had decreased to 10.2 billion.[13]

By 1968 foreign holdings of dollars had become to large that the dollar could no longer be converted into gold. The Americans requested the surplus countries of the industrialized world not to demand conversion of its dollars into gold. After 1968 the world was no longer on a gold reserve standard. It had shifted over to a dollar standard. No central bank could rely on the United States to exchange its dollars for gold. This fact affirmed by the fact that major decreases in the U.S. gold stock did not take place after 1968.

The U.S. had a substantial surplus on its balance of trade and services throughout the 1950s, a surplus that continued until the beginning of the 1970s. The huge surplus on the balance of trade and services was to a large extent offset by government transfers. Government transfers to other countries comprised of both military assistance as well as loans and aid for civilian purposes. The U.S. had a huge surplus in its balance of payments which put a great strain on the economies of Western Europe. They had large deficits in their external balances which caused them to lose low reserves of foreign currency. The situation would have led to a collapse of the international trading system had it not been for the aid from the American government, which was very substantial during these years.[14] Besides large government transfers there were also small private investments which led to the outflow of private capital from the United States. As a result, with time, the surplus in the American balance of payments was transformed into a deficit.

To help the other leaching industrial nations build up their reserves of foreign currency, i.e. dollars, the US had to run a deficit in its balance of payments so that it trading partners could transform a part of their export surplus into liquid dolalr holdings.

In 1958, some western countries also started to acquire gold instead of dollars, and the US lost about $2.3 billions.[15] The outflow of gold further aggravated the deficit in the American balance of payments. The outflow of gold continued unabated till 1968, the year which marked the cessation of the convertibility of the dollar into gold.

Whenever one refers to the ties between the U.S. and Western Europe, one always speaks in terms of a special relationship. The U.S. is bound to Western Europe by kinship, history, common causes, and common values. "The dimunition of Western Europe would be America's dimunition, their loss its loss."[16] Western Europe has been and continues to be at the top of the US foreign policy agenda. No other place in the world has received that much of commitment and solcitude from the U.S.

Non-Communist Europe in which West Germany, France, the U.K. and Italy are the leading nations, constitutes one of the three or four great power centres of the world. The economic and political potential was clearly expressed by Joseph C. Harsch in his work "Don't Understimate Europe" in late 1964. He wrote:

"If you wre selecting the part of the world that might, if it chose, challenge that US for leadership you would take Western Europe. It could even challenge the U.S. in nuclear military power. It is, in fact, the only other part of the World which has all the necessary resources and wealth to build and sustain a military system as expensive as the Americans. It could outstrip Russia easily."[17]

The bonds that link the U.S. and Western Europe were at their strongest during and immediately after World War II. The New Departure in the American foreign policy was highlighted by the Truman Doctrine, by the policy soon to be characterized as that of "Containment", by the Marshall Plan, and by the North Atlantic Treaty. This marked the beginning of military alliances and alliance diplomacy. The New Departure was made public on March 12, 1947 when the President delivered his "Truman Doctrine" speech. In his speech the Mr. Truman called for a programme of aid to Greece and Turkey and he emphasized the broad implications involved. "I believe that it must be the policy of the U.S.", he declared, "to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressures." Thereafter a prime objective of American foreign policy was to be "containment of Soviet Power" which later was identified with George Kennan, the director of the State Department's Policy Planning Staff.[18]

The war-ravaged countries of Europe suffered severe economic difficulties. In a speech at Havard University early in June 1947, Secretary of State, George C. Marshall suggested an aid programme to restore the economies of Europe. This was because the U.S. recognized the need for positive measures of assistance and protective restraints of trade. Through direct loans, grants and other forms of assitance, the U.S. accepted a major responsibility for the economic rehabilitation of the world. The Marshall plan was carried out through the so-called European Recovery Programme (ERP), entrusted by Congress in April 1948 to the Economic Cooperation Administration.

The Marshall Plan was possibly the most ambitious programme of economic coordination in history. The participants included all of non-communist Europe except for Spain plus Iceland and Turkey. After the announcement of the plan by the Secretary of State George Marshall, in his famous speech at Harvard on June 5, 1947, representatives of the sixteen participating States met in

Paris to draft a programme of joint effort for recovery and decide on the amount which would be realized in the form of outside assistance. The Russian government immediately after this opposed the whole idea of the Marshall plan by casting aspersions on it as an American imperialist and anti-Soviet plot. At its instance, Czechoslovakia and Poland, which had earlier indicated their intention to participate, withdrew from the plan altogether. These actions "set a seal to the breach between the West and the Soviet block; the history of Europe for years ahead was settled within weeks."[19]

The foreign Ministers of the West European states set up the Committee of European Economic Co-operation. The committee issued a two-volume report.[20] This report formed the basis for the European Recovery Programme on April 16, 1948, after the U.S. Congress had passed the Foreign Assistance Act of 1948, which established the European Cooperation Administration, the ECA adopted a convention for European Economic Co-operation. In this connection, the sixteen participating states aggreed to work in close cooperation with each other as they felt that they could promote their economic interests better if they worked together. To further these objectives the Convention established the Organization for European Economic Cooperation.

The OEEC served as a coordinating agency and it remained in operation until 1961 after which it was replaced by the OECD (Organization for Economic Cooperation and Development). The OECD primarily arrived at the enhancement of production and trade in Western Europe.

The Marshall Plan was initially offered to all of Europe, but the Soviet Union alongwith its satellites rejected it as it found it to be an instrument of American imperialism and an attack on the Sovereignty of nation-states. Thus European recovery and rehabilitation had to be considered on a regional rather than on a continental basis. The Marshall plan intended to facilitate cooperation among the recipient European nations. The Organisaation for European Economic Coooperation was set up in April 1948 to administer the aid programme and two years later the EPU (European Payments Union) came up to serve as a multilateral clearing agency for international money flows. The Americans realized that the more supranationalthe institutions, the weaker would be the impact of the individual national governments, in influencing policy in Western Europe which would inevitably result in closer integration.

The Marshall Plan was a resounding success. The ECA (European Cooperation Administration) report stated an all-round increase in indusrtrial and agricultural production; inflationary forces were curbed and real wages and living conditions saw a great improvement. Substantial progress was made in removing quota restrictions, exchange difficulties, and other barriers to intra-European trade. It also reported that communism had been "called back throughout Western Europe", that democracy and democratic institutions had been strengthened, that "cooperation for economic recovery had led to cooperation for military defence", and that "institutions for European Cooperation had been started and are growing in strength."[21] The Marshall Plan thus played an instrumental role in forging European unity. When future historians look back upon the achievements of the Marshall Plan, declared Richard M. Bissell, Jr., formerly acting ECA Administrator, "I believe they will see in it the charge that blasted the first substantial cracks in the centuries - old walls of European nationalism - walls that once destroyed will clear the way for the building of a unified, prrosperous, and above all, peaceful continent"[22]

In its immediate objectives, the Marshall Plan was a tremendous success. It saved Europe from economic collapse and consequently prevented communism from developing a stronghold. But in its long-term objectives it was not able to call the shots as after the implementation of the various foreign assistance programmes in Western Europe the latter still did not grow to be an ecconomically viable and politically stable unit which was capable of defending itself from a Soviet onslaught.

American foreign aid programmes became an integral part of its foreign policy. While earlier these programmes were primarily emergency packages to combat emergency situaations, with the Marshall Plan they underwent a characteristic change with their characteristic change with their long-term objective being one of promotion of their political, economic and military interests in Western Europe.

The period of large-scale American foreign assistance to Western Europe since 1941 can be divided into five phases. The first covered the years from the passage of the Lend-Lease Act in March 1941 to August 1945. The Lend-Lease Act aimed at providing assistance to countries resisting Nazi aggression. The total amount given by teh U.S. as assistance had worked out to $49.1 billion. The second lasted till the formulation and implementation of the ERP (European Recovery Programme) in 1948. In this phase assistance was given to the large-scale rehabilitation and reconstruction of the war-ravaged areas. The third phase was marked by the passing of the Foreign Asistance Act in 1948 which took up reconstruction and rebuilding on a larger geographical basis. The communist aggression in 1950, marked the beginning of the fourth phase in which the emphasis shifted from recovery to rearmament. This was reflected in the passing of the Mutual Security Act in October 1951. Earlier economic rehabilitation was emphasized on with no military connotations, but the with Communist aggression on the Republic of Korea in June 1950, the focus of the Marshall Plan shifted from recovery to rearmament, following its integration with the Mutual Security Programme. Accordingly to Theodore White, "Though the Marshall Plan continued in name down to 1952, historically it came to its end the week the communists attacked in Asia."[23] In 1953, the death of Stalin, the changed Russian stance and the truce in Korea naturally had a profound effect on American foreign policy. America began to focus more on Asia than Europe and emphasis shifted from military to economic assitance. In 1955, the U.S. Government consolidated its various foreign-aid programmes including what remained of the Marshall Plan for Europe, into a permanent International Cooperation Administration. The advent of the Kennedy administration in 1961 ushered in a new phase, during which the American foreign and programme was related to a "decade of development".[24] Aid was to be given to selected countries and larger contributions were to be made by the more economically advanced countries. The Foreign Assistance Act of 1961 created the Agency for International Development to provide a framework for a more coordinated economic assistance programme during the

Kennedy and Johnson administrations.

The U.S. had hoped to wind up her aid programme after the war and to transfer the burden of reconstruction and rebuilding in the war ravaged areas to international agencies and private enterprises. However, due to deterioration of relations with the Soviet Union and the division of the world into two distinct blocks the U.S. had no option but to continue with the role of providing large-scale assistance to reconstruct the economies of countries badly affected by the war as it felt that a weak economy coupled with politial isntability would serve as a breeding ground for communism.

The earlier fear of communist aggression changed from a mere threat to the gross reality with the Korean war in 1950. Economic considerations were subordinated to military preparedness and American foreign policy was subjected to a thorough criticism and re-examination. With the coming to an end of the rule of Joseph Stalin in Russia the atmosphere became more conducive for talks to break the deadlock and being about a rapprochement between the two blocks. The Soviet Union under Khruschev desirred to follow more flexible and conciliatory policies and being about an overall reduction in global tensions and usher in peace. President Kennedy by his charisma and astute diplomacy assured the U.S. its primary role in international affairs. American foreign policy was, however, viewed with growing suspicion by many friendly countries including formal allies with the sharp escalation of military operations in Vietnam.

The U.S. at the expense of its own economic interests tried its level best to bring about European unification. A point to note was that the U.S. support for European unification even at times when it hurt its own interest was always tacitly conditional. The American's were all for a United Europe because they felt that the relationship would be reciprocal and a United Europe would always be for them. The European continent did not possess the recuperative powers to assure recovery from the vast dislocation and destruction perpetrated by the Second World War. The Cold war futher aggravaated the problem. The continent was separated by an "iron curtain" which ran from Baltic to Trieste on the Atlantic and divided the communist from the non-communist world. These development seriously retarded the ecconomic recovery of Europe and raised the problems of security against aggression.

Because of tensions created by the division between the East and the West, the countries of Western Europe were driven by sheer necessity to make concerted efforts towards defence and security. Since even their agreeing to pull together in order to counter the Soviet power did not serve the purpose, they were driven to associating themelves with the U.S. in formal defence arrangement. The major defence organisations and military alliances to result from these efforts were the Western European Union and the NATO.

No degree of cooperation could give the West European nations the requisite strength to provide a counter weight to the Soviet Union. So, their agreeing to align themselves with the U.S. in a Security pact was inevitable. On April 4, 1949, after many months of negotiations on military, diplomatic and political levels, representatives of twelve nations - the Brussels Pact powers, Canada, Denmark, Ireland, Italy, Norway, Portugal and the US-signed North Atlantic Treaty in Washington. In this notable document, the major nations of the West pledged themselves to strengthen "their full institutions", to "encourage economic collaboration" to "maintain and develop their individual and collective capacity to resist armed attack" and most important of all to considers "an armed attack against one or more of them in Europe or North America... an attack against them all."[25]

The North Atlantic Treaty Organization (NATO) is essential for the concerted defences of the North Atlantic area against communist states, and the defence of Western Europe is the prime concern of the organization.

NATO reflected the fact that the victorious nations of Western Europe had been so weakened by wars that even if they get together they could not provide an effective counterweight to the Soviet bloc.

Another obvious example of American support for European integration was the establishment of the European Defence Community. It should be noted that the sacrifice made was always implicitly conditional. The U.S. took it for granted that Western Europe would always side with them whenever they wanted to counter Moscow and its allies.

For more than a decade, U.S.-European relations were predominantly harmonious. Every year saw European product and incomes grow, trade increase, welfare improve. Economic integration facilitated growth; the U.S. profited by this prospering, among other things, by the implantation in Europe of American multinational firms; and the Western Alliance grew stronger as the West European region changed into a major force in the world economy.

However, after a time frictions began to develop within the Atlantic alliance. When Europe became stronger, the U.S. was less willing to concede privileges to it. All along, till now, the Europeans had been allowed to discriminate against American exports, to subsidize their own exports or engage in dumping. However, by the late sixties, Europe had recuperated from the ravages of war and this resultd in a competition with the U.S. for third world markets. This was because of the growth in European production which stimulated European interest in outside and overseas markets.

The raison d'etre of the Alliance weakened with the reduction in the Soviet threat to Western Europe. This was the result of a number of developments - the death of Stalin, Russo-Chinese split, the multi-polarization of the world balance of power, the growth in European strength and bargaining power. Of course, the Alliance could not have called it a day as communist aggression did take place from time to time, as in Hungary in 1956 and in Czechoslavakia in 1968. The coming into being of detente, which was a relaxation of tensions supposed to bring the Soviet Union and the West from the perils of the Cold war and segragated co-existence to a happier state of peaceful commence, added to the weakening of the alliance.[26]

In 1960, President John F. Kennedy was elected to be the President of the U.S. President. Kennedy aimed for peace abroad and social progress at home. After Kennedy, Johnson assumed the Presidency in 1963. The Johnson Administration became increasingly concerned with military action. The American forces in South Vietnam were steadily increased. Before his

Administration ended, President Johnson had committed more than half a million men to the conflict in South east Asia.[27]

The cost of war, coupled with a record spending on domestic programmes, and a substantial rise in average family income, exerted strong inflationary pressures on the nation's economy, the most severe since the immediate post-World War II years. In 1968, the dollar was buying 10 cents less in goods than the 1964 dollar, and annual inflation had reached 2.5 per cent.[28]

On January 20, 1969, Richard Nixan took the oath of office as the 37th President of the U.S. President Nixon gave priority to foreign affairs and significantly redirected U.S. policies. In July 1969 he outlined the broad principle that would guide hs Administration; he defined the "Nixon Doctrine" with these words :

"Its central thesis is that the U.S. will participate in the defence and the development of allies and friends, but that America cannot-and will not-conceive all the plans, design all the programmes, execute all the decisions and undertake all the defencce of the free nations of the World. We will help where it makes a real difference and is considered in our interest."[29]

Nixon had promised to end the war in Vietnam during the campaign and to begin to withdraw American troops while continuing strong military campaigns and pursuing or negotiated peace settlement. Settlement finally came in January 1973, and two months later the last American combat soldier left Vietnam. Fighting between Vietnamese, however, continued American participation in the war had lost the country more than 57,000 servicemen killed, more than 300,00 wounded, and more than $1,35,00 million spent.[30]

During the Presidency of Richard Nixon, the U.S. tried to give a new definiton to the "Atlantic Alliance". The U.S. had taken it for granted that its association with Western Europe would be on a reciprocal basis. This even though unspoken was implicit. The U.S. felt that Europe would support it in its foreign policy and other issues for the simple fact that had it not been for the U.S. it would have been well nigh impossible for Europe to arise from the rubbles to which it had been reduced after the Second World War. However, Europe was not willing to give the U.S. the gratitude and appreciation which the latter expected for the tremendous military and economic outlay it had incurred to enable Western Europe to recuperate from the ravages of war. Moreover, Europe was critical of the U.S. policies regarding Vietnam and the Arab-Israeli conflict of 1973. Europe refused to tow the U.S. line as it would have hurt its economic interests as Europe was dependent on Arab oil and taking sides with Israel would have impaired its interest.

In 1973, the same types of forces which had been at work and which finally led the U.S. to leave the gold standard in 1971 persisted. The Vietnam war continued. The U.S. money supply grew at a high rate in 1972, and inflationary trends began to be felt in the U.S. economy. The world economy of the 1970s had been plagued by severe problems. The pace of development slackened and unemployment increased. The expansion of world trade stopped and there was a decline in the volume of international trade.

The most spectacular disturbance ws in connection with the Arab-Israil war that started in October 1973. The Arab countries embargoed shipments of oil to the US and the Netherlands. Soon after, the Organization of Petroleum Expanding Countries (OPEC) decided to increase the price of oil drastically.[31]

Oil prices began to increase very rapidly in October 1973. Within four months, when a new equilibrium price level was reached, oil prices had increased by almost 300 per cent. The OPEC countries realized that they could increase both the price of oil and their revenues from exports of oil products by monopoly prices. By forming a cartel and dividing up the market, the OPEC countries could guarantee that they all would benefit from the price increase. This they did. Oil prices have not fallen from the level they reached in 1974. It was basically the Arab-Israeli War of 1973 which made the OPEC countries aware of their monopoly and the way they could exploit it to their advantage.[32]

Europe viewed with disfavour and alarm, America's advocacy of Israel as it felt that the oil crisis which was the consequence of the war would result in a rise in prices which would hamper its industrial growth.

It was not only with regard to the Arab-Israeli conflict but also a host of other issues on which the U.S. and Europe did not see eye-to-eye. The Europeans resented the harder approach adopted by the U.S. towards the erstwhile Soviet Union as they felt that would unnecessarily provoke the Russians. Further the imposition of economic sanctions against the Soviet Union by the U.S. offended the Europeans.

In 1971, President Nixon called for a New Economic Policy. America called for the lowering of barriers to American farm products by the Common Market which was actually the result of the high support price structure of the Common Agricultural Policy (CAP). Benjamin Cohen describes the reversal as a "bargain come unstuck". Repeatedly the U.S. had emphasized its willingness to sacrifice short-term economic benefits for the long-term advantages of partenrship with a United Europe. Its attitude had been "what was good for Europe was also good for the US."[33]

However, realizing that the Russian bear could bare its claws even now if it wanted, the Americans thought it better to strengthen the Atlantic alliance. Nixon and Kissinger went ahead to declare 1973 as the "Year of Europe". Americans reaffirmed their commitment to European security and accepted the intention of European Governments to forge bilateral ties with the Soviet Union and Eastern Europe. The U.S. called its European allies to join them in defining a "basis of cooperative economic relations." "We need", Nixon said, "a new affirmation to our common goals, to give political direction to our economic negotiations and promote cooperative solutions."[34]

Thus the World order which the Americans wished to establish after World War II was basically one in which the spread of communism would be curbed. The Truman Doctrine went far beyond just providing aid to Greece and Turkey and was primarily designed to counter communist expansion. Following this came the Marshall Plan which was formulated to provide assistance on a continental basis but rejection of it by the Soviets turned it into a means of containment. Economic Recovery was replaced by militarization after the Korean war of 1950.[35]

After World War II there was a general feeling among the Europeans that reconstruction could not follow traditional national lines, but cooperation on a wider scale was necessary. Subsequently, two divergent lines for Western European integration developed. While one argued for a close and compact integration of a small group of countries, the other approach aimed at cooperation among a larger group of countries on less specific terms.[36]

The proponents of the first approach went on to form the ECSC (European Coal and Steel Community) in April 1951. The ECSC comprised of France, Belgium, Italy, Luxembourg, the Netherlands and West Germany. The other approach worked for closer integration among the group of countries belonging to the Organizagtion for European Economic Co-operation (OEEC) founded in 1948. The OEEC comprised all the European countries outside the communist bloc. It was first created in order to bring about the successful launching of the Marshall Aid Programme and was an important forum for economic cooperation between the United States and Western Europe. Britain was the strongest advocate of this approach which aimed at a looser organisation in the form of a European free-trade area.

The conflict between the two approaches came to a head in 1955. The British argued for a European free-trade area. Their interests at the time lay outside Europe. They not only desired a closer cooperation with the U.S. but also wanted a free hand in their dealings with the countries comprising the British Commonwealth. This approach suited the Scandinavian countries as well as their interests in a more integrated Europe was guided by economic and not political interests. On the other hand, France especially after De Gaulle came to power, was interested in closer cooperation among the six countries which had got together to set up the ECSC. They finally got down to establishing the EEC (European Economic Community) by the Treaty of Rome, signed in 1957.

With the breakdown of negotiations for a broader European free-trade area, the seven countries outside the common market, Austria, Denmark, Great Britain, Norway, Portugal, Sweden and Switzerland, negotiated for formation of a trade grouping amongst themselves. In 1959 they signed the Stockholm Treaty, which formed the EFTA (European Free Trade Association). In 1967 three EFTA members, Great Britain, Norway and Denmark, alongwith Ireland, applied for full membership in the Common Market, while the remaining members sought a free trade agreement.[37]

Coming back to the economic aspects of U.S. relations with the Common Market, when the ECSC (European Coal and Steel Community) was formed in 1952, the earlier American enthusiasm towards European integration was slightly dampened. The reconstruction period was coming to a close and it was felt that the formation of large regional economic groupings would hinder multilateral free trade which was the idea behind the establishment of the GATT and the IMF. Likewise, in 1958 when the EEC came into being the same misgivings about increased protectionism against third countries arose into the minds of many Americans. The official U.S. position "encouraged integration measures of a forward- looking, trade-creding nature, while at the same time opposing narrower arrangements which would strive to divert and restrict trade."[38] With this the U.S. hoped to shape the Common Market into an outward-oriented economic union, which would not only serve Europe's needs but also aid the cause of free trade in general. Article 18 of the Rome Treaty puts to rest the fears of the U.S. and other non-member States that the EEC would put up tariff barriers against products coming from them. Under this Article, the EEC can enter into negotiations with third countries for the reduction of the Common External Tariff (CET). The lowering of the CET would result in fewer U.S. exports being wholly or partially displaced by production within the common market countries.[39]

French Foreign Minister, Schuman, on outlining his proposal for a European Coal and Steel Community on May 9, 1950, declarred : "By pooling basic production and by creating a new high authority whose decisions will be binding on France, Germany and the other countries who may join, this proposal will create the finest concrete foundation for a European federation which is so indispensable for the preservation of peace."[40] Thus the aim was a pooling not only of power but of a measure of sovereignty"...it was to be the finest real step, an unprecedented step toward a federation of European nations."[41] It was the finest major attempt at the giving up of sovereignty by the European nations, who thought it to be in their interest to federate rather than perish by not coming together.

In the years 1956-63 the European Community idea received fresh impetus with the Treaty of Rome of 1957 and the creation of the European Economic Community (EEC) and the European Atomic Energy Commission (EURATOM) in 1958. "The six began to weave a single economic fabric out of six separate and often different national economies. Under this common ecconomic flag, the six member states appeared also to be moving in Unison toward their common goal of genuine European political and economic unity. The centuries old concept of enduring peace and prosperity on the continent-the rewards of European unification - changed an unattainable dream to an accessible reality".[42]

In 1961, Britain expressed its desire to become one with the European Economic Community which was a welcome change from her historical stance of aloofness from the European continent. In the same year, the dynamic

President Kennedy called for greater efforts towards forming further the "Atlantic partnership". This relationship, as one of his top advisers declared in December, 1961, would be a "partnership of freedom", and would examine "the re-creation of a Central political force in Western Europe."[43]

US economic power dominated the world of the 1950s and the 1960s. An economically prosperous Europe was more of an asset for the U.S. than a force which would threaten the U.S. business interest. It provided a marekt for U.S. products and U.S. firms began to operate on a continental basis - by the 1960s both Ford and General Motors had struck deep roots in Europse. Accoridng to renowned economist, a Jacob Viner, the "trade creating" effect of a unified Europe would far offset any "trade-dividing" effects from intra-European preferences.[44]

The Treaty of Rome committed the six member states to eleiminate trade barriers, within the Community and to establish a Common Commercial Policy, thereby creating a customs union. Over the next decade, the Common External Tariff (CET) was put in place. Meanwhile, the six moved forward with the Common Agiruclutral Policy (CAP), which entalied free trade within Europe but greater insulation of European agirucultural markets from external competition.

The U.S. under President Kennedy realized that the elimination of tariffs among the six coupled with the erection of the CET (Common External Tariff) would be detrimental to U.S. economic interest. The Kennedy Administration was also apprehensive about the CAP, fearing a decline of U.S. agricultural elxports, though it should be brought to notice that the exclusion of agriculture from the GATT was done at the instance of the U.S. in 1955. The U.S. in order to meet the challenge realized that it should open foreign markets to U.S. exports rather than closing U.S markets to foreign imports. Thus in order to make Europe lower the Commmon External Tariff (CET), the U.S. decided to lower its own tariffs in return.

U.S. tariffs were thus reduced by 50 per cent in the GATT negotiations and this came to be known as the Kennedy Round of multilaternal negotiations. "....The success of our foreign policy depends in large measure upon the success of our foreign trade, and our maintenance of Western political unity depends in equally large measure upon the degree of Western economic unity. An inegrated Western Europe, joined in trading partnershp with the U.S., will furtehr shfit the world balance of power to the side of freedom".[45]

After the initial enthusiasm on signing the Treaty of Rome and the successful completion of the Kenedy Round, Europe fell into a period of doubt according to Jean Servan

Schreiber.[46] Thus what had started with a bang in the 1950s and 60s ended with a whimper in the 1970s and early 1980s. On Jan.22, 1972, the U.K. along with Ireland, Denmark signed the Treaty of Accession with the EC. Accession of these three countries turned the original six into the nine. The U.S. was hopeful that the inclusion of Britain in the communing would further forment the "Atlantic Alliance". The latter always having proven to be a steadfast ally of the former. Further, the US held that Britain having been one of the harbingers of democracy and democratic insitutions would strengthen the democratic dimensions of the EC and British membership would help prevent the EC from becoming a protecionist economic bloc.[47]

The expansion of the membership of the EC from six to nine only broadened it further and no effort was made to deepen it. The eocnomic climate of the 1970s with its two oil shock and high inflation lead the individual member countries to raise tariff barriers and resort to other protectionist measures. Stanley Hoffman has called the period between 1973 and 1984, the communists dark age.[48] The only constructive step taken in the 1970s towards European integration was the setting up of the European Monetary System (EMS) along with its concomitants, the European Currency Unit (ECU) and the Exchange Rate Mechanism (ERM) in 1979. During the decade, steps towards trade liberalisation slowed down drastically and the Common Agirucltural Policy (CAP) escalated transatlantic frictions. when Greece, Spain and Portugal joined the Ec in the mid-1980s, thereby enlarging the nine to the tweleve, agricultural disputes with the US had come to the fore. By the mid-1980s, slow growth, high inflation, high unemployment, internal barriers and a host of other problems led to "Eurosclerosis" and "Europessimism".[49]

The formal adoption in 1985 of a comprehensive programme which included a timetable for action on specific measures culminated in an overall deadline of Dec. 31, 1992. The White Paper was drafted by the Commission under the leaderhip of Lord Cockfield and was entitled "completing the internal market".[50] In 1985, the White Paper attempted to identify all existing barriers to the free movement of goods, services, capital and people, and listed some 300 legislative proposals necessary to create a unified market.

According to estimates made in the official Cecchini report (sponsored by the Commission to demonistrate the benefits that could accrue to this Community from removing barriers), welding together the twelve individual markets into one single market, could, over the medium term, boost EC GDP by 4.3 to 6.4. per cent. This jump amounts to some $270 billions and would lead to a creation of millions of new jobs, the reduction of inflation, and the harvest of large budgetary gains.[51]

Richard Baldwin has calculated that the boost in EC capital stock resulting from the Europe 1992 programme would add another 1.7 to 2.6 per cent to the GDP gains estimated by Cecchini. Baldwin agrues that further gains may be realized on account of economy wide returns of scale.[52] While the official Cecchini report projects the increase of 4.3 to 6.4 per cent of GDP, some unofficial studies suggest a GDP gain of only 1.5 to 2.5 per cent.[53] It is premature right now to say whether it is the pessimists or the optimists are right, but all in all so far the community growth has been remarkably buoyant.[54] The Cecchini report puts the gains from opening market entry, and the consequent intensification of competition and realisation of scale economies, at about 240 billions.[55]

In 1986, the Single European Act was signed which took effect in 1987, amending the Treaties of Rome to improve EC functioning both by allowing for the adoption of legislation by less than unanimous vote of the member States, and by expanding the EC members. The 12 European Community leaders finalized a new constitution that would create a European Union, effective from January 1, 1993 when they met at Masstricht, the Netherlands, Decmeber 9 and 10, 1991.

The decision to proceed at a faster pace towards the single market was in response to the growing concerns that the EC was falling behind its internationl competitors, particularly the US and Japan, and that it was paying a heavy cost for the augmentation of what was to be a single market. The deadline set for Decmeber 31, 1992 should be looked at as a process and not as an event. Even though the single market was not completed by 1992, considerable progress has been made in that direction.

The U.S. economic stake in the EC is enormous: the EC accounts for 25% of U.S. exports and 40 per cent of its foreign investment. This naturally makes the U.S. concerned at the prospect of the emergence of a "Fortress Europe" which would raise protectionist barriers like the CET (Common External Tariff) against third countries.

The main problem before the U.S. is how the economic integration of Europe is going to affect its trade and investment there. The questions confronting the U.S. are the effect on its firms in Europe, as a result of the integration; whether a unified Europe will pose a powerful challenge for the US in world markets and whether EC-92 will be detrimental to US exports. The problem is to see how will a unified Europe shape American attitudes towards its own economic institutions and its role in shaping international policy.

Since the end of World War II, a sea-change has taken place over the face of Europe. It has become stronger economically, politically and militarily. The trend towards greater integration and cooperation will sooner or later win over the forces of ethnicity and nationalism. This will make Europe a more formidable force but all efforts should be directed at preventing Europe from falling prey to its own divisions and inherited rivalries like, for instance, the current dithering on the Maastricht Treaty. The Masstricht Treaty has caused a fissure amongst national political parties of the member nations. On September 20, 1992, the result of the French Referendum on the Maastricht Treay was that only 51.05 per cent of the French voted in favour of while 48.95 per cent were against the Treaty coming into effect from January 1, 1993. Similar trends of 'Saying no to Maastrichet' are being observed in Britain, Germany and Denmark. Other nations too have their apprehensions over the economic, social and political fallout of the treaty. Thus popular scepticism about the future of Europe leaves efforts at Europeanisation, however compelling their socio-economic logic, suspended in an atmosphere of bewilderment and xenophobia.

With the reunification of Germany and the revolution in Eastern Europe following the demise of the USSR, cooperation even on a continental basis has got a boost.

However, since the White Paper was issued in 1985, the community has resolutely pursued deeper integration in preference to wider geographic expansion. European leaders have accorded first priority to the core 1992 programme. These priorities reflect the vision of Jacques Delors: first to ensure deep internal integration; only then respond to new opportunities offered by closer ties with non-member states.[56]

Thus once deeper integration is established among the twelve member states, a wider integration of Eastern Europe is on the agenda as the latter offers a historic opportunity to reestablish Europe at the centre of world affairs.

Robert Strausz-Hupe, a distinguished American expert on foreign affairs, of European origin, made the following observation: The present state of Europe does not seem to warrant an optimistic appraisal of Europe's potential for unification. Yet, the regressive trends of the present and even the dismal record of the past need not portend the shape of the future. While the high policies of Governments point in one direction, powerful forces push European countries towards one another ..... The European masses have achieved unprecendented mobility. Millions of Europeans travel, each year, from their domicile to some other or several European lands. The young seems to travel faster and more widely than their elders and to form, with greatest of ease, associations and attachments beyong their homelands borders. Such that, at the grass roots level, a united Europe exists. The pressure of common needs and pull of shared aspirations may, sooner than now seems likely, compel the rulers of the one-time Great Powers of Western Europe, to exchange their precarious claim to an independent policy for a European one".[57]

Thus the U.S. and the E.C. have fallen out with each other and a war of attrition is on between the two of them. Several major and minor frictions have cropped up between them and the previously amiable Atlantic Alliance has been shadowed with animosity. With the demise of the Soviet Union and the subsequent cessation of the Cold War, Communist expansionism and aggression no longer remains a potent threat. As a consequence, the EC has no need to bank on the US to shield it from a military attack from Moscow. The EC has become more assertive with regard to its economic and political rights and is no longer willing to tow the American line.

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CHAPTER - II

U.S. TRADE WITH AND INVESTMENT IN THE EC

US TRADE WITH AND INVESTMENT IN THE EC

The major issue for US policy makers and business leaders seems to be how the economic integration of Europe is likely to affect the 160 billion worth of trade merchandise between the US and Europe.[1] To the extent the EC's effort is successful in establishing a single integrated market, it will transform the face of Europe and the way business is conducted in the twelve member states. For that reason, it will have great significance for the U.S.

The US economic stake in Europe 1992 has two principal dimensions: the direct commercial interests of US firms and the broader role of Europe in US global economic strategy.[2] The US economic stake in Europe 1992 extends well beyond the direct commercial impact. The course which Europe - 1992 takes will largely influence the stance and success of US global economic strategy. The US and EC will do their utmost to resolve their differences in order to avert a trade war. If this fails to happen and intra-North discordance persists then the end outcome would be catastrophic to the interests of the North as it would then be unable to provide an effective counter to the South. Thus besides the direct commercial impact which the EC would have on the US, it would also in a large way affect the US' global economic policy.

Hannes Androsch has observed in his "Airing OUt Europe's House" that the twelve nations that make up the European community form a market with more than 320 million people compared with the US market with 240 million and the Japanese market with 130 million.[3] Most Americans think that the EC will erect protective barriers against many of their goods and services, such as agricultural products and financial services such as banking and insurance so that the EC can foster internal trade. If this happens, the Americans want to also erect barriers against the EC in retaliation or they can take recourse to threat of use or use of unilateral coercive measures like the Super and Special 301 which fall under the US 1988 Trade and Competitiveness Act. However, one should not be very worried about a tariff battle as major US companies like GM (General Motors), GE (General Electric), Ford, IBM, Coca-Cola, Kodak et. al. are already in the EC. Likewise, major European companies like Shell, Merecedes, Nestle British Petroleum et. al. are already in the US. Since both the US and the EC have mutual trade and investment interests, all steps would be taken by the two to bridge their differences to stave off the chances of a trade warfare.

The US economic stake in the EC is enormous. In 1986, US exports to the EC totaled $ 52.4 billion, EC exports to the US totaled $79.5 billion US direct investment in the EC totaled $100 billion, EC direct investment in the US totaled $ 125 billion, sales by European divisions of US multinationals totaled $ 400 billion, and sales of US divisions of European multinationals totaled $ 300 billion. The growing interdependence of the two economies is highlighted by the fact that in 1987 US exports of goods and services to the European Community were eight times greater than they were in 1970, climbing from 19 percent of overall U.S. exports to 24 percent. Over the same period, U.S direct investment in Europe increased tenfold, jumping from 15 to 40 percent of overall U.S. direct investment abroad.[4] The US and the twelve members of the EC are the world's two major economic blocs. Together they account for almost one half of the world's GDP and about one third of global trade.[5] Each is the other's most important trading partner with bilateral trade reaching just under $ 150 million in 1987. Similarly each is the leading foreign investor in the other's territory.[6] While for the EC-12, intra regional trade accounts for 60% of its total trade for the US it works out to 42%.[7]

Due to years of attempting to preserve fragmented, protected and higher regulated national economies, competitive weakness and high unemployment has resulted in Europe, while Canada, Japan and the US have surged ahead technologically and succeeded in generating millions of new jobs.[8] The combined experience of "Eurosclerosis" with the symptoms of low growth and high unemployment, competitive fears arising primarily from US and Japanese superiority in the high technology sectors, the sense of a shifting of focus from Atlantic economic relations toward the Pacific : and the external shocks of volatile oil prices, exchange rates, and capital flows, have provided significant motivation for the development of the White Paper programme.[9]

The programme to complete the internal market is contained in a White Paper, which lists about 300 measures on areas requiring action. The barriers targeted for elimination fall into the following categories: border controls; restrictions on the recognition of professional qualifications granted by other member states; differences among the member states in value added and excise taxes; movement of capital; restrictions on the provision of standards; and restrictions in public procurement market.[10]

The potential for change in the EC resulting from completion of the internal market is vast. The process of removing the barriers will create change throughout the Community, and this is bound to affect areas and sectors differently. The end result of this will be greater competition than before, a situation that will affect all participants in the EC market, whether domestic or foreign.

Completion of the internal market will present US business an essentially barrier free market in place of what had largely been 12 separate entities. Consequently, there will not only be opportunities but also incentives for firms to expand their geographic coverage to serve a larger customer base with greater facility. This will apply to all firms whether they are US, EC or third country firms. The creation of a Single EC Market presents US business far-reaching opportunities arising from increased demand, lower costs, increased flexibility of operation, and potential economies of scale. At the same time, it must be recognized that these opportunities will be similarly available to the EC and third country firms.

It is widely asserted in the EC that foreign-particularly US-multinationals have been the major beneficiaries of the opportunities presented by the EC's formation and development. This has resulted generally from the global approach of US MNCs to market and their experience of operating in and among foreign countries, as opposed to the greater tendency by the Community firms to maintain a base in their home country and satellite operations in other member countries.

An integrated EC market will certainly result in a higher level of economic activity and thus a higher level of demand and consumption that otherwise. This implies a greater demand for products exported to the community as well as indigenously produced goods.

Past US experience with the formation and enlargement of the EC has not been notably adverse to US export interests. Between 1958 and 1986, intra-EC trade grew by a factor of 36 in nominal terms, while EC trade with the outside would grew by a factor of 16.[11]

Estimates made by G.N. Yannopoulis suggest that vis-a-vis the U.S. the formation of the original Common Market of six led to trade creation in excess of trade diversion to the extent of $ 18.5 billion (in 1988 prices); again, in the enlargement from six to nine, the positive balance was about $ 10.8 billion while the subsequent enlargement to twelve slightly reduced U.S. exports.[12]

The share of US direct foreign investment stock placed in the EC-12 has risen from about 18 percent in 1960 to nearly 40% in 1988. The stock of US direct investment in the EC 12 has grown substantially faster than the value of exports. In 1988 sales of US owned affiliates in the Community totaled $ 620 billion, compared with just $ 76 billion for US exports to the EC-12.[13] This goes to prove that investment in the EC is of far greater importance than U.S. exports to it.

Thus the U.S. government is more concerned with opening investment opportunities in the EC rather than promoting exports there as seen from an investment perspective. Ec-1992 is highly attractive to American firms. It is "Opportunity Europe" not "Fortress Europe" for U.S. investors. EC competition policy is favorable to foreign investors; and foreign firms established within Europe enjoy numerous opportunities to participate in shaping the internal market.[14] Whatever EC-1992 may hold for U.S. Exports, it basically holds great promise for General Motors, international Business Machines, American Telephone and Telegraph, and a long list of other U.S. firms with a strong presence in Europe.[15] This is the reason why the principal organizations that speak for U.S. business-the Business Round Table, the U.S. Council for International Business, the National Association of Manufacturers, and the U.S. Chamber of Commerce are enthusiastic about Europe-1992.

When the EC made public its plan for removing all remaining barriers to trade within the Community by the end of 1992, reactions differed for the U.S. investors and exporters. U.S. multinational corporations with subsidiaries in the EC welcomed this decision as it would make it easier for highly competitive American firms to do business there with fewer bureaucratic hassles to deal with and would make them more accessible to European markets. But U.S. exporters were less sanguine about their prospects in Europe. They feared that elimination of internal barriers would result in the building of external barriers thereby creating a "Fortress Europe". This would result in the reduction of European sales of U.S exporters. Incidentally, the EC is the largest trading partner of the U.S., taking 24 per cent of total U.S. exports and providing 18 percent of U.S. imports.[16]

As EC-92 has progressed, however, these fears have greatly subsided. American exports have actually risen in recent years, reversing a downward trend in sales abroad that characterized most of the 1980s. According to the office of the U.S. Trade Representative, the U.S. exported more than $ 98 billion worth of goods and services to the EC in 1990, up 14 percent from the year before. It was the second straight year in which the U.S. enjoyed a trade surplus with the Community.[17] However,one should not forget the fact that much of the rise in exports was due to the fall in the value of the U.S. dollar. The cheaper dollar reduced the prices of U.S. goods sold overseas.

According to surveys conducted by KPMG Peat Narwick, an international accounting firm, more than 80 percent of American companies are following events as they unfold in the community and are reviewing their positions in Europe. For American manufacturers as a whole, the outlook for EC-92 is distinctly positive. Companies generally see Europe 1992 "as something that is going to facilitate business rather than close it out" says Cooney of the National Association of Manufacturers.[18] American manufacturers of capital goods machine tools and other factory equipment have experienced a rise of exports to Europe. This performance can be traced to the rising investment in new factories in Europe spurred by EC-92.

European integration is not expected to have a major impact on the health of the U.S. economy. According to the Congressional Budget office "large overall effects on the economy of the U.S. are unlikely".[19] American firms are adopting innovative strategies to deal with an increasingly complex global trading system that will be dominated by the three major trade blocs NAFTA, EC and ASEAN. In this emerging trade system, Steve Cooney of the National Association of Manufacturers says that the multinational corporation is no longer an adequate vehicle for companies to penetrate overseas markets. "The old approach by which you invest in a market in order to jump the tariff wall to produce and sell in the market alone is going the way of the dodo in most companies. You may have to have an integrated presence in each of these three areas". That may mean setting up facilities to make some components in one trade area that will be shipped to another area for assembly with other components for final sale to all the three areas.[20]

The proposed EC Single market would have many features in common with the US federal system, which benefit from the economies of scale generated by the free flow of economic and human resources. Politically, greater economic integration would bind Europe close together, a primary goal of the Community's founders. A single market also would enhance the influence of the EC institutions in relation to individual European governments. Nonetheless, the EC's political power would continue to be substantially less than that of the U.S. Federal Government.

Studies indicate that the full implementation of the programme would bring wide-ranging advantageous structural adjustment in Europe, as well as gains in gross domestic product. Specific benefits are expected from:

- Supply side effects – the cost savings, which will result from the removal of border barriers; economies of scale in production for a larger market; increased competition; greater expenditure on research and development.

- Demand-side-effects - lower prices, greater variety of products to stimulate consumer demand, and lower budgetary expenditures on government regulations.[21]

The EC's Single Market Programme significantly will affect U.S. business through new product standards, new laws and business regulations, stronger growth and stiffer competition. Their mutual economic interests are huge: in 1987, U.S. EC trade totaled $ 145 billion. Direct investment in each other's market is estimated at $ 280 billion and portfolio investment is even higher. American business should be prepared now to deal with a more integrated and stronger EC.

U.S. support for European integration remains a cornerstone of U.S. foreign policy. As open and vibrant

Europe reinforces the common bond of democracy, strengthens the Atlantic alliance, and can be a powerful engine for economic growth. Increased competition from within the EC, could, however, have the potential to harm U.S. interests by leading European business to seek more protection from outside. Nonetheless, the U.S. Government, o n its part, is doing all that it can to prevent the establishment of tariff barriers against its trade and investment in the EC. The U.S. has come up with its own trading bloc - the NAFTA to counter the effects of a "Fortress Europe".

Few medium-to large size U.S. firms will be unaffected by developments in Europe's internal market. Many US -based corporations, such as IBM, Ford, and GM have a well established presence and identity in Europe. The elimination of many internal barriers to the movement of goods, services, capital and labour in the European market represents an enormous opportunity and a significant challenge.[22] It is only the hedgling on the smaller companies in both areas which may have to bear the brunt of protectionism if they do not make an attempt to forge alliances, mergers on acquisitions in order to participate in both the markets.[23]

Americans hold that the EC will become a better market for US products and a competition that helps drive U.S. enterprises to excellence. However, while the U.S. is optimistic about 1992, it is also wary about it. The US fears that the Single Market will be less than open as a result of discriminatory directives as regulations tensions and sceptical questions are greatly troubling and dividing the alliance.

Five major specific EC-1992 issue are now part of the US community negotiating agenda , national overtax, technical standards, local content coupled with rules of origin, and government procurement. We shall deal with them one by one.

I) Reciprocity

Reciprocity means to what extent will the EC insist as a condition for US firms to operate freely in a unified Europe, that European firms be given the same rights in the US. The US is concerned about attempts to apply to foreign investors or exporters the notion of "reciprocity" equivalent access, on other euphemisms that moves it away from the principle of national treatment. In its Second Banking Directive, the European Commission individually called for reciprocity as a standard for foreign entry. Because the US has domestic restrictions on interstate banking and banks under securities, a strict interpretation of reciprocity would keep US banks out of Europe. The US prefers the principle of national treatment. A bank from the CE operating in the US would be treated the same as a US bank in similar circumstances, and vice-versa. The standard of national treatment is fair, predictable and open. Due to the rapid and forceful sanction of the U.S. Administration to the idea, the Commission has revised the directive to define reciprocity as national treatment plus "effective market access".[24]

The EC insists that it will not automatically extend the benefits of the internal market to outsiders unless required to do so by existing international agreements. In the context of the GATT negotiations, reciprocity has historically meant that each trading partner extends concessions that ensure new access to its markets equivalent to the new access its exports gain in foreign markets. In the context of the 1992 programme, the EC has reinterpreted reciprocity to mean that an EC firm should enjoy both national treatment the same treatment that a government accords to its domestic firms plus effective access to the foreign market. The EC position in these matters calls to mind American enthusiasm for a "level playing field" which has been expressed in various provisions of the Omnibus Trade and Competitiveness Act of 1988.[25]

It was feared that the EC would require "mirror-image" reciprocity and that the mirror -image test meaning analagous treatment of firms in both the countries would have indirectly blocked the access of U.S. firms to the enlarged EC market.[26] For instance, the traditional US separation between banking and commerce embodied in the

Glass Stegall Act of 1933, together with the geographic restrictions on banking embodied in the McFodden Act, prohibit banks operating in the US from providing the full range and geographic scope of financial services that banks operating in Europe can offer. Thus the U.S. is in no position to grant mirror-image reciprocity to European banks. Eventually, however, the Commission declared that it is not in fact, seeking mirror- image reciprocity from the U.S. but instead wants European firms to enjoy "market access and competition opportunities comparable to those granted by the Community".

II) National Quotas

Quotas against products shipped from other members of the EC are obviously inconsistent with the principles of an integrated market. National quotas will have to be replaced by a common EC quota for example, one can take the case of automobiles. Various member states limit Japanese imports (to under 3 per cent of the market in France and Italy, upto 11 percent in Britain), but there are no restrictions in Germany, the Benelux countries, and several smaller countries (where the Japanese market share ranges upto 40 percent). European motor industry leaders from Germany, Italy and France, together with Ford of Europe, have demanded transnational EC-wide controls in the sale of Japanese cars through the mid-1990s and relaxation only in the case of the reciprocity from Japan.[27] Progressive relaxation would require parallel liberalization by Japan. The sales of Japanese auto transplant firms located in Europe would be taken into account in the monitoring exercise but not actually included under the import column - a distinction without a difference. This means that restrictions would be enclamped both on Japanese imports and Japanese auto transplant firms located in Europe itself. This whole approach, with the implied foundation of understandings between the Japanese producers and the Community, could endanger the potential growth of U.S. automobile exports to Europe shipped from Japanese transplant firms in Ohio (Honda) and Tennessee (Nissan). The policy challenge for the U.S. is to become a vigorous and effective voice for Nissan and Honda as exporters of autos from the U.S. to Europe.[28] The U.S. has the law on its side: EC limitations of U.S. made Hondas would be illegal under the GATT. But legality will lose out if the EC reaches an understanding with Japan. Even the U.S. should be ready to make some concessions. For instance, the U.S. should reconsider its discriminatory fleet mileage regulations which bear heavily on European luxury car imports.

III) Technical Standards

The outcome of the various efforts in the EC to harmonize regulations and standards will have major implications for the ability of U.S. firms to compete in the

Community. This is particularly, but by no means solely, the case in the high technology areas.

The eventual harmonization of European technical standards, backed by common testing and certification procedures, is a key ingredient in creating an integrated European market. Technical standards play a major role in two industries - automobiles and telecommunications. Harmonization of standards must be supported by EC - wide testing and certification procedures or by mutual recognition of national testing and certification procedures.

Technical harmonization has both its pluses and minuses for US companies. One the one hand, large U.S. firms established in Europe might enjoy a competitive advantage under harmonized conditions, since they are accustomed to operating on a continental basis. This is particularly true of automobiles, telecommunications and pharmaceutical firms. In addition, all U.S. firms would enjoy cost savings, because they could now market their products throughout Europe by meeting one set of standards rather than twelve. On the other hand, it is feared that exclusion from the EC-standard setting, procedures would work to the disadvantage of U.S. companies, particularly those exporting high technology products to Europe.

The result of the U.S. Community talks, prompted by the U.S. commerce Secretary, Robert Mosbacher, is that the

American National Standards Institute (ANSI) will exercise a voice in the EC standards boards - the European Committee for standardization (CEN) and the European Committee for Electrotechnical standardisation (CENELEC) - and vice-versa.[29] In addition, individual U.S. companies - especially larger companies - already enjoy a variety of access routes to the EC process.

US firms will benefit from a transparent system of establishing regulations and standards - open, fair and non-discriminatory. They will also benefit from a system in which the testing and certification procedures do not limit access to non-EC firms. There are fundamental differences between the European and the U.S. systems. The regulations and standards are generally established by governments in Europe, to assure quality whereas they're often developed in the U.S. by industry and are less extensive. The major hindrances as regards regulations and standards are: first, participation in standards setting is largely limited to U.S. subsidiaries in the EC. without a direct presence in the EC, U.S. export interests will find it difficult to participate in or influence the process. In that respect, U.S. firms will be at a disadvantage compared with firms of non-EC European countries which participate in the European standards organization. Second, it is by no means certain that the EC authorities will recognize testing carried out in approved U.S. facilities. Third, to the extent that the

EC concentrates its standards efforts on Europe-wide standards in CEN and CENELAC, it reduces the resources it can devote to developing international standards in the International Standards Organisation (ISO) and the International Electrotechnical Commission (IEC), and the organizations in which the U.S. participates. The final question which concerns U.S. interests is whether the standards and regulations are designed in a manner which impedes market access. For instance, U.S . interests can be damaged by uniformity, as in the case of the EC-wide ban on meat from cattle fed with harmonies, putting at risk all U.S. meat exports.

Thus one of the most crucial elements of 1992 will be standards, certification and testing processes. There is potential for discrimination here. EC-wide standards may bar differing U.S. technologies. EC-wide standards may bar differing U.S. technologies. Lack of transparency may prevent effective U.S. input or shorten the time for U.S. exporters to make design changes before new rules go into effect. And U.S. procedures and testing bodies may not get equal access to an EC-wide testing and certification system.

A limited range of products affecting health, and the environment, and for some products with strong inter-operational features (notably telecommunications), the EC will lay down minimum standards or enforce harmonization. How soon and for what products will the mutual recognition approach be adopted between U.S. and the Community? Under what circumstances will the community accept product testing and certification performed in the U.S. and vice-versa? And what level of consultation and co-ordination will take place between the Community and the U.S. in setting minimum standards? All this is yet uncertain.

IV) Rules of Origin and Local Content

"Local content" refers to the percentage of value embodied in a good or service made within a geographic area, for e.g., the EC or EFTA.[30] "Rules of origin" define the patrimony of individual components.[31] These issues affect the Automobiles, Telecommunications and Semiconductor sectors. The combining of stringent local content requirements and rules of origin exclude products made outside the Community.

The U.S. is concerned by the EC actions on "rules of origin". These rules or regulations are used to define the "nationality" of a product in dumping cases, where higher tariffs are imposed on a product from a certain country. Restrictive rules of origin have the potential to harm U.S. export interests. Thus measures like the rules of origin and quotas might create a bias in favour of locating in Europe rather than exporting to Europe.

To illustrate with the case of semiconductors, the EC has insisted that the process of diffusion (laying the circuit on the chip) must take place within Europe to meet the EC rule of origin. This particular rule represents a new interpretation of the general EC rule that assigns a component EC patrimony if the "last substantial transformation occurred in a member state". The diffusion rule was originally aimed at dumping by Japanese firms - owned assembly plants located in Europe and designed to avoid EC antidumping duties of the final product simply by importing and assembling the components.

But the diffusion rule, coupled with the agreement by Japanese firms to ensure atleast 40 percent U.S content from non-Japanese sources, quickly affected U.S. semiconductor exporters: downstream computer manufacturers replaced U.S. made semi conductors with European semi conductors, supposedly because of the diffusion rule.[32]

V) Government Procurement

The multi billion dollar EC procurement market some 15 per cent of GDP, about $ 600 billion, including the purchases of state-owned enterprises - has traditionally been closed, not only to U.S. supplies, but also to suppliers from other member states.[33] Member states favour national firms through "Buy National Policies". Between 1984 and 1988, the Deutsche Bundespost awarded 99.5 per cent of its contracts to German firms; while France, the U.K., the Netherlands and Portugal awarded 100 per cent of their telecommunications contracts to their own national firms.

Over-all less than 2 percent of government contracts go to firms in other member states.[34]

The Europe - 1992 process contemplates opening government procurement to firms from other European countries - this is particularly important to American exporters of telecommunications equipment.

Since the AT&T break-up decree was issued by the U.S. District Judge Harold Gueene in 1982, the U.S. had had an increasingly open telecommunications market, correspondingly, the closed EC procurement market is not in keeping with the U.S. Congress and US trade-officials. The U.S. Trade and Competitiveness Act of 988, instructed the U.S. Trade Representative to open the foreign telecommunications market, with a special view toward Europe and Japan. The telecommunications provisions of the 1988 Trade Act particularly illuminate both US and EC trade strategies. U.S. telephone deregulation coupled with the 1982 covert decree that divested American Telephone and Telegraph (AT&T) of its regional operating companies (the so-called Baby Bells), created a huge market for foreign suppliers of telecommunications equipment of the U.S. market. This happened because the Baby Bells were freed from their purchasing ties to Western Electric, the manufacturing arm of the old AT&T system. Meanwhile, other nations, including the EC member states, kept their strong links to private suppliers. As a result, in part with the

U.S. trade deficit in telecommunications products deteriorated from $ 5.0 billion in 1981 to $ 15.6 billion in 1987.[35]

The European market is already the biggest export market for U.S. suppliers. In 1988, the U.S. exported $ 1.3 billion of telecommunications apparatus to the EC, compared with $ 0.6 billion to Japan and $ 0.8 billion to Canada.[36] But U.S. exports to Europe would be far larger. The EC telecommunications equipment market, which amounted to $ 17.5 billion in 1986, is expected to grow 67 per cent by 1995 (by comparison, the U.S. market is expected to grow by 23 per cent).[37]

There are also some economic sectors whose study is pertinent to the case at hand. The idea is to see how U.S firms operate in the Community. The extent to which they confront barriers among the member countries, and the effect an integrated market will have on their operations and competitive position. Let us take a look at some of the sectors.

1. Automobiles

The U.S. automobile presence in the EC is represented by massive, long-standing investments by the two largest U.S. manufacturers - Ford and General Motors. Both established operations in Europe long before World War II, and both have become self-contained companies organized on a pan-European basis. The main barriers faced by the automobile companies in the EC relate to taxes and to product standards and regulations. In addition to the different levels of VAT (value Added Tax), sales and registration taxes are imposed by most member states. These taxes, which are not included in the White Paper's tax harmonization proposals, range from zero in France, Gernamy and Spain to 180% in large cars in Denmark.[38] Another form of competitive distortion is caused by national and local government aid, often substantial, to domestic automobile manufacturers in forms such as grants, loans, equity injections, and debt write-offs.

Equally significant are differences in a number of product standards. Although there are uniform standards covering automobile features, others remain subject to country-specific unique specifications.

But most important are the emission standards. Because they affect environmental policy, emission standards are a highly political and highly sensitive subject. Most concerned are the Danes, the Dutch and the Germans, in part because of their experience with acid rain. The effect on the market of different emissions controls was recognized early on by the Commission which has tried for a number of years to coordinate these policies.

By all counts, the cost of the fragmented EC automobile market is high. According to one automative source it comes to just under $ 700 per car for an average sized manufacturer.[39] In a study conducted as part of the Cecchini report (named after Paolo Cecchini, a recently retired Deputy Director General of the Commission), the report deals with a longer study of the potential micro - and macro economic impacts, summaries of the many individual studies in specific manufacturing and service sectors), it was estimated that the completion of the internal market could result in savings to the automobile industry of over $ 6 billion and could bring about a 6 per cent increase in demand.[40]

The establishment of an integrated market in the EC should decrease costs for automobile manufacturers because they will no longer need to satisfy differences (or as many differences) based on national specifications or special requirements, in addition, they will benefit from the liberalization of capital movements and financial services and the removal of border controls. This consideration will apply to U.S. automobiles exporters as well as manufacturers. Exporters of automobile components (for U.S. or EC manufacturers) should benefit from a somewhat larger market with fewer barriers, but their particular circumstances may vary considerably. In any event, the benefits of an integrated market will be available to all manufacturers, whether they are inside or outside the

Community.

In the short term, it is likely that the U.S. manufacturers will more than hold their own in the EC market because they have rationalized their operations on a European basis -and thus will be able to take advantage of the opportunities of the Single Market - whereas EC manufacturers operate mainly from the home base and treat exports outside this base as incremental sales. On the other hand, the longer term prospects for U.S. firms will depend more on European manufacturer's ability to move to a considerably higher Pan-European strategy.

2. Banks

Since the formation of the EC - and in many cases preceding it - U.S. banks have established branches and subsidiaries in all parts of the Community, a trend accelerated by the growth of Europe as an important financial centre. Their degree of welcome and freedom of operation has varied among the EC member states but on the whole they have developed a strong position in the EC. Most US banks have not sought to enter the banking sector, which is generally more closely regulated and protected and on the whole more difficult competitively for non-local institutions. However, in the commercial banking sector, U.S. banks have played a much larger role, sharing the opportunities offered to all financial institutions by the growth in financial services.

The most important development on the banking scene is the Second Banking Coordinating Directive proposed by the European Commission in early 1988. Under the prospective banking regime, U.S. institutions will likely benefit from two major advantages. First, they are geographically broad-based and well-experienced in operating across borders, whereas banks of EC member states have traditionally been strong in their home country and less active regionally. Second, as a result of their US experience, they have generally been, at least till recently, in the forefront of providing innovative services to customers.

Nonetheless, the banking directive contains some features of concern to U.S. banks. To the extent that U.S. banks prefer to continue operating in the EC through branches, which will remain national (rather than EC-wide) institutions, they could find themselves placed at a competitive disadvantage vis-a-vis EC banks (of EC or foreign parentage) since the latter would have to meet only one set of regulations. Second, it is conceivable that regulatory authorities in the member countries (or on an EC level) will assert that home country control cannot in fact be exercised by an EC member state because of the residual supervisory competence exercised by U.S. regulatory agencies over the overseas operations of U.S. banks. Third, comes the question of reciprocity. If the EC were to determine that the U.S. does not provide reciprocity of treatment and decide to apply the directive [41] to all U.S. banks, regardless of when they were established in EC member states, the competitive position of the U.S. banking industry in the EC would be placed at a risk.

3. Insurance

US insurance firms have participated in the EC, although their presence has not been of a major proportion. Because of the fragmentation of the market, they have to a great extent operated individually in the separate markets. In such case they have had to satisfy the relevant national authorities of their conformity with domestic requirements and overcome any informal resistance to their presence in the market, whether they operated through the establishment of their own subsidiaries or through the acquisition of or merger with national companies.

Apart from confirming the principle of freedom of establishment for insurance companies from outside, member states are deciding on some ancillary harmonization measures. There was little action on insurance at the community level until the mid-1980s. This took the form of the decisions of the European Court of Justice at the end of 1986 and Council approval of a directive on nonlife insurance in 1988. The Court's decision paved the way for an insurance company to sell policies in another member state without being established in that country. Debate over implementation of that decision lasted until early 1988 when the Council approved a directive, which provided that in the case of property and liability insurance for commercial risks over a specified threshold a company can underwrite insurance in another country (and remain subject to the regulations of the country where it is established).

Thus, the direction of EC policy on insurance is that of reducing national regulatory controls and enabling companies to provide services more easily across national borders.

Overall, the EC insurance market is large, $ 150 billion,[42] and the level of savings in much of the EC is high. Thus, deregulation of the insurance sector in the EC, with the attendant reduction in the many restrictive practices, should produce new opportunities for market participants - be they the U.S., EC. or third country firms.

However, the threat remains that the EC will decide to apply reciprocity to the insurance sector or the same terms as are now proposed for banking. In that event, U.S . firms could find their competitive situation jeopardised, since regulation of insurance by the states, rather than the federal government, would presumably prevent the U.S. from being able to provide conditions of access and operation for EC companies comparable to that produced in the Community.

4. Medical Services

This is an area of high technology in which US firms are at the vanguard of technological change and where U.S. equipment in many cases in more advanced than that of its competitors. The US industry is relatively new, with improved devices and equipment constantly being developed and produced. Regulation regarding medical devices came only recently in U.S. Food and Drug administration began to set standards until the mid-1970s.

The bulk of U.S. sales to the EC comes from exports, although the larger U.S. firms have established subsidiaries in the EC for manufacturing and distribution. Even in the latter case, however, a significant portion of sales has consisted of exports from the U.S. reflecting the rapidity of technological change and the impossibility of placing a substantial part of their research and development and manufacturing in the EC. On the whole, the EC has been receptive to US products in this sector because of their contribution to health care and the relative absence of strong competition from EC firms.

As with the rest of the health sector governments are deeply involved in the regulation of medical devices. This affects U.S. manufacturers throughout the range of regulation from product registration to certification of conformance with the technical standards. More recently, the EC has made a start on instituting EC-wide standards. The result is an array of requirements facing medical device manufacturers. For example, for a U.S. company producing implantable pacemakers for sale in the EC, standards proposed by the CENELAC (The European Electrical Standards body) will eventually have to be made. However, at present they must meet French and Italian standards (for sale in those markets), plus various other regulations and requirements set by Belgium,m France, Germany, Italy, the Netherlands, Spain and the U.K.

Medical services may have to meet not only technical standards but also product testing and certification by recognized bodies. Traditionally, Germany has been considered the premier testing location; its findings have generally been recognized and accepted throughout Europe. Of particular concern to U.S. firms manufacturing in the U.S. and exporting to the EC is whether U.S. testing and certification will be recognized in the EC or whether, as is the case in some member states, these must take place in the EC. If U.S. procedures are not accepted, it would adversely affect it in terms of both cost and time.

For U.S. firms, the implications of completion of the internal market will relate largely to regulations and technical standards. The key consideration for U.S. firms - exporters and investors - will be the nature and scope of the EC regulations and standards ultimately adopted, as well as the testing and certification requirements, standards harmonization and extension of mutual recognization will facilitate operations in the EC market, although increased regulation to keep pace with technological change could have the opposite effect. On balance, integration of the EC market would seem to present opportunities for the U.S. firms to improve their already favourable position in the Community.

5. Pharmaceuticals

Pharmaceuticals is an area of heavy government involvement in all EC countries, first because it concerns fundamental issues of health and safety, and second because of the govenment's role as provider, or atleast funder, of health services. The U.S. pharmaceutical manufacturers are well established in the EC countries (with about 25 per cent of the market); the major firms have invested inside the Community (many of them for a long time) and have developed extensive operations thoughout the EC.[43]

Most decision-making systems lack transparency, which leaves the way open to national authorities to discriminate in favour of national companies. The issue of price transparency among subsidiaries has been a subject of contention for U.S. firms. The discretionary and often opaque nature of the process has led some U.S. firms to consider themselves the object of less favourable treatment than that accorded to domestic firms.

At present, the two main issues on the table are EC-wide registration and the trasparency of pricing and reimbursement. Work is further along on price and reimbursement transparency. A directive proposed by the Commission is presently under consideration by the Council and Pariliament. The directive would require fair, objective and verifiable prices, with the onus on member states to give fair and objective reasons for price and reimbursement decisions. An idea has also been mooted for the establishment of an EC-wide procedure or institution like the U.S. Food and Drug Administration.

Ultimately all U.S. firms participating in the EC market have established subsidiaries there and thus can claim status as EC firms. In that capacity they are able to seek influence in the EC political process. All U.S. firms, and EC and third country companies, will stand to benefit from completion of the internal market in terms of opportunities for economies of scale and rationalisation of operations.

6. Telecommunications

Telecommunications is an area of intense competition- among companies and products - as well as constant and revolutionary change in technology. Massive investment is required for development of products whose life-cycle is constantly diminishing as successor products are developed.

It is particularly in this sector that forces within the EC have felt the Community was falling behind in the competitive race with the U.S. and Japan. Accordingly, they have emphasized the urgency of creating the conditions under which the EC could develop a viable Community-wide industry capable of holding its own in the world market. The consequences of market fragmentation in the EC have been the building of different telephone switching systems to meet different national standards.

As it became increasingly clear that market fragmentation and government controls over the telecommunications sector in the member countries was the cause of massive costs, a consensus developed on the necessity of deregulation and the integration of the separate telecommunications markets. The Commission in early 1987 issued a Green Paper on developing a Common Market in the EC for services and equipment.[44]

In varying degrees, most member states are moving towards deregulation. At the same time, EC manufacturereres have recongnised that they need a broader market than that provided by one member state or the EC, and users have recognized the competitive disadvantage to them from limited access to the latest equipment and services.

The U.S. has an enormous stake in the future development of the EC telecommunication market. U.S.

interests cover the range from equipment manufacturers to service providers. Their ability to participate in the market will be a significant factor in the relationship between the U.S. and EC.

Telecommunications is one of the areas specially exempted from EC regulations on public procurement and despite the Commission recommendation of a few years ago that member state open up 10 per cent of their national telecommunications market to non-national firms, the market has been characterized by national government attentiveness to the interests of "national champions".[45]

To a large extent, U.S. suppliers of equipment and services have established subsidiaries in the EC and thus qualify as EC firms. Although they have not fared well in competition with the "national champions" their prospects would improve with the dimunition of the role of national authorities. One likely effect over time of opening the public procurement market will be a shake out of over-capacity in the network equipment industry, where the existing eight or nine producers will in all probability be reduced by market forces to a a maximum of three, thus decreasing the number of "champions". In so far as U.S. exporters are concerned, a further opening of the telecommunications market would appear to depend on renegotiation of the GATT procurement code, where reciprocal benefits would undoubtedly be demanded by the EC.

But the nub of the problem for US interests is standards, which cause supplying firms to face a series of individual, differentiated markets. The situation should be improved with the recent establishment of the European Telecommunications Standards Institute, following a proposal in the Green Paper. This is a step forward because it will end the monopoly of the 26-nation conference of European Administrations of Posts and Telecommunications (CEPT) over the standards process by including participation by manufacturers.

All-in-all, the outcome for U.S. firms will depend on developments in three key areas -

1. The extent to which U.S. firms are able to participate in the standards -setting process and, related to that, the degree of transparency.

2. Whether testing and certification at U.S. facilities will be recognized in the EC?

3. The extent to which European, as opposed to international standards are adopted. This can be particularly important in that a different European system could raise the cost of acess for U.S. products. 46

7) Agriculture

The Common Agricultural Policy is the system as agricultural support adopted by the EC. The Central feature of the policy is that it raises the incomes of farmers by keeping agricultural prices to the consumer at a high level. The subsidy to the farmers is therefore financed by the consumer as well as the taxpayer. 'Target' prices are fixed by the EC for specified Commodities. Import prices the kept above the target prices by the imposition of levies. Criticism has been made by the high Cost of CAP. About 75 percent of the Community budget is absorbed by agricultural and, of that, only about 10 percent is used for agricultural reform.[47]

Since there is no need to maintain a united front against the Soviet threat any longer, economic frictions will look increasingly large on both sides of the Atlantic. The most difficult economic issues standing between Washington and Brussels is Europe's closed agricultural market. During 1979-86, the EC subsidy for agriculture was \$ 39.8 billion a year or 37 per cent of the domestic price while the U.S. agricultural subsidy for the same year was \$ 30.8 billion or 28 per cent of the domestic price for the Ec while for the U.S. it was \$ 34.7 billion - 30 per cent of the domestic price.[48] At the centre of problem is the EC's Common Agricultural Policy (CAP), which protects European agriculture.

Instituted in 1962, the CAP has allowed the EC to become more than self-sufficient in many agricultural commodities and has provided more stable incomes to the Euyropean farming population. The CAP today, however, consumes some 70 per cent of the EC budget - nd through its complicated network of protection, price supports and subsidies - has created large surpluses of many agricultural products. EC export subsidies, used to dispose of some of these surpluses, have helped to create a distorted and unstable market in agricultural commodities. Over the years, the EC products benefiting from CAP have displaced some U.S. farm products. The global reform of agricultural policies remains a U.S. objective and a major task of the current round of multilateral trade negotations.[49]

For a quarter-century, 1960-1985, it could be said that the Common Agricultural Policy (CAP) was the most important accomplishment of the European Community. Despite being involved by all except Europe's farmers, a source of constant bickering among member states, a and the cause of serious political frictions with other nations, the CAP was the Community's most highly developed common economic policy and a sectoral manifestation of the cooperation between France and the FRG, that was a foundation for a uniting Europe.

The three essential principles of the CAP were - the unity of the internal EC market, preference for EC suppliers, and joint financial responsibility for internal market support and external disposal operations were jointly financed by the European Agricultural Guidance and Guarantor Fund.

The consequences of this highly protectionist policy were predictable. Farm output responded vigorously to the incentives of high support prices and the assured outlets provided by intervention agencies. Indeed, output grew faster than demand so that indigenous supplies replaced imports and the level of self-sufficiency rose. By the early 1980s, the EC had become a net exporter of most temperate-zone agricultural products, and its share of world exports grew as supplies surplus to domestic requirements were dumped on world markets. Community expenditures on support purchasing storage, and exporting soared and came to absorb as much as 75 per cent of the Community's overall budget. The adverse economic effects of the CAP on agricultural exporting economies that lost markets in Europe to high cost indigenous production and whose markets elsewhere were depressed and destablished by, and increasingly lost to, Europe's subsidized exports became a cause of constant and mounting friction between the EC and competing exporters of farm products from both developed and developing countries.

The gathering weight of internal discontent with the CAP and of complaints from foreign countries about its external effects did not cause it to be fundamentally changed in his period. Serious attempts by the U.S. and others in the Kennedy and Tokyo Rounds of the GATT negotiations to lower the degree of support and protection provided to Europe's farmers were successfully resisted.

One of the chief reasons why the CAP proved impervious to substantive reforms in the first quarter - century of its existence (1960-1985) was the strategic acquiescence of the U.S. In the 1960s, when the CAP was in its formative statges the U.S. consciously subordinated its agricultural trade interests to the larger political goal of fostering a United Europe.[50] By the 1970s when the U.S. chose to defend its economic interests by con-fronting the CAP in the Tokyo Round, the policy was set and the U.S. no longer had the power to impose its preferences on Europe, except by letting the GATT Round collapse - a higher price than it was then prepared to pay.

In the second half of the 1980s the CAP was subject to increasing pressures. Within the Community, the development of agricultural production and markets resulted in spending on the CAP reaching intolerable levels, and disenchantment with a number of its other features multiplied. Abroad, other countries indicated that they were no longer prepared to accept the external effects of the EC's farm support and agricultural trade policies and made reform of the CAP, the centre-piece of the Uruguay Round which began in Punta de Este in 1986.

It was France and Germany specially which initiated subsidies to their farmers, and since CAP's adoption farmers across the Community have defended the protection. Consumers complain about high food prices, and industrial groups complain that 95 per cent of Europe is subsidizing the 5 per cent who farm, but electoral politics has rewards the well-organized agricultural minority.

Many blame the EC intransigence on this issue for the breakdown of the Uruguay Round of GATT talks. Although the U.S. insisted on exempting agriculture from the GATT negotiations in the 1950s, in 1987 it changed course and proposed a ten-year phase out of agricultural subsidies. Europe offered no hint of official interest, and the U.S. walked out of the talks.

Agriculture is not the only source of trade friction between the EC and the U.S. Industrial subsidies are much more a way of life on the continent than in the U.S., and the American economist, Robert Samuelson, detects growing commercial tensions across the Atlantic on the issue. Using Europe's Airbus Commercial air-craft consortium as an example, he, contends that Europeans no longer bargain in good faith with Washington. "Reasonable demands by the U.S.

for a gradual reduction of government subsidies has been rebuffed, he says, Europeans increasingly treat America with "contempt" on trade issues.[51]

Washington, however, has also contributed to trade frictions. The Omnibus Trade and Competitiveness Act of 1988, which provides for retaliation against unfair trading practices, viewed abroad as unilateralist and not in the spirit of the GATT. Moreover, agriculture is a very sensitive issue in Europe, and Washington's proposed GATT bargain during the Uruguay Round - simultaneous liberalization of services, intellectual property rights, investment, and agriculture - is viewed as unfairly advantageous to American producers at the expense of Europeans.

If Europe is truly prepared for a trade war and if the Clinton Administration does not reach an agreement on subsidies politically palatable to the Community, Europe could become significantly more of a trade fortress after 1992. The EC is too strong economically to be coerced by the U.S., and Brussels will not be deterred by Congressional or Administration threats to pursue a North American trade strategy. A world defined economically by trade blocs is distinctly possible, as are the consequences, which would tear out Western security cooperation and hasten a U.S. withdrawal from Europe.

European Monetary Union

At a meeting held in the Dutch city of Maastricht in December 1991, Community leaders look a bold step towards monetary union, a step that seemed unlikely just a short time ago. They agreed that an independent European Central Bank would be established before July 1998. They further agreed that a core group of member states having accepted novel constraints on national prerogatives formerly considered sacrosanct, would irrevocably fix their exchange rates by January 1999 at the latest, thus enabling the substitution of a single European currency for existing national currencies. Thereafter, other members will adopt that single currency as soon as their economic circumstances allow.

In 1957, the six founding member states of the EEC were all committed to the pegged exchange rate system as it had evolved since the 1944 Bretton Woods Conference. The need for an alternative regional arrangement to foster exchange rate stability did not therefore arise, until the system began undeniably to crumble. Unwise American economic policies precipitated the crisis, but French, German and Japanese policies undoubtedly exacerbated it and ultimately helped to break a set of international rules concerning balance-of-payments adjustment that never really worked as originally intended.[52] In the end, the Europeans, the Japanese, and the Americans simply could not agree on the distribution of the burden of adjustment to serious payments imbalances between them. Or more bluntly, a two respected economists recently put it: 'the U.S. came under attack..... a political challenge to its dominance was mounted as U.S. policy began to run counter to the interests of its major trading partners.[53] Such a setting, the path of least resistance implied the end of whatever monetary stability was promised, if only intermittently delivered, by a near universal system of fixed, but adjustable exchange rates. As the old rules were collapsing, and exchange rate movements were becoming erratic, one consequence was the start of an attempt within Europe to craft a regional "zone of monetary stability".[54]

In 1969, as the postwar exchange rate mechanism headed towards it terminal crisis, the heads of government of EC member states first expressed a desire to see the Community evolve into an economic and monetary union. Just as the global exchange rate crisis was effectively demonstrating that monetary stability could not be maintained in the face of wide divergences in national macro-economic preferences, a regional economic union could not rest on divergent fiscal and monetary foundations. The success of the resulting European Monetary System (EMS) had to clearly do with clearly converging domestic policies. The heads of government, sitting as the European Council in June 1988, charged a committee composed of EC Central Bank governors and outside experts led by Delors, President of the EC since 1985, with the task of proposing concrete steps leading towards monetary union less than a year later. The Delors Committee issued a report chartered a three-stage programme to achieve that goal.[55]

In the first stage of the Delor's Committee's plan for economic and monetary union (EMU), and in line with the 1992 Single Market Programme already in train, any lingering capital controls between member states were to be abolished. Thereafter, all EC currencies were to be bound more tightly together. In the second stage, a European system of central banks, roughly analogous to the Federal Reserve System in the US, was to develop and exercize stringent oversight, but ultimate authority over monetary policy was to remain with national central banks. Finally, in the third stage, the central banking system, now unified and independent, was to run a Common Monetary policy, national budgets were to be subject to binding rules, and irrevocably fixed exchange rates were to pave the way for a single European Currency.

After the Maastricht Treaty, assuming a continuing convergence in national economic preferences, especially preferences regarding inflation, it was now entirely conceivable that within a few years a European central bank would manage a common monetary policy. It is also more likely that national currencies would begin to be replaced by a single European currency, that national fiscal policies would be subjected to formal constraints, and that the price of staying outside the union would be high.[56] The EMU poses a more direct challenge for the U.S. In the recent past as C. Randall Henning has pointed out, the U.S. occasionally used the "dollar weapon" to encourage European countries to adjust their trade surpluses, the mission image of American deficits.[57] In the early 1970s, for example, fluctuations in exchange rates wrecked relatively greater havoc in economic relations between unintegrated European state s than they did within the US. Europeans were thereby brought to the bargaining table, and revaluations were negotiated that took off some pressure both for deep devaluations of the American dollar and for a requiring in of U.S. governmental spending. In the world after European Monetary Union, however, and given a now comparable level of economic openness between Europe and the U.S., at unstable exchange rate between the European currency and the dollars could conceivably hurt the U.S. as much as or more than it hurts Europe. In Hennings's words - "The dollars weapon will be rendered impotent... in a confrontation with the U.S. over who should change policies to arrest an undesirable, disordering change in the exchange rate the EC will be in a more equal position. European leaders will be better able to insist that U.S. monetary authorities participate fully in concerted intervention in the exchange markets, rather than carry a disproportionately large share of the burden themselves. When private capital flows to the U.S. dry up as they do periodically, European authorities will not be forced to step into the breach. If they choose to do so, they might insist on American policy adjustments as a quid pro quo".[58]

In effect, if an increasingly cohesive Europe successfully pursues a low-inflation economic policy, the U.S. cannot hope to pursue a high-inflation policy without undercutting its own productive capacity in the long term.

In addition to reducing over time the relative international position of the American dollars, the rise of a single European currency and the consequent elimination of the necessity for foreign exchange arrangements within the EC pose a more subtle challenge for the U.S. The EC has estimated that monetary union implies the need to dispose of approximately half the foreign currency reserves now held by the central banks of the member states. The value of these excess reserves is estimated at around US $ 230 billion.[59] Selling those reserves outright (especially their largest component - American dollars) would be destablizing in the extreme. Because over half the world's foreign currency-denominated private wealth is in dollars, the resulting depressed value of the dollar would spell global inflation on a vast scale - and probable recession in Europe as the value of the European currency will rise accordingly.

The expansion of regional institutions will generally be positive like the new European Bank for Reconstruction and Development, could cast a shadow over the future role and importance of comparable institutions set up under the American auspices after World War II. For example, the IMF, originally conceived as the central monetary system of the post war system if currently capitalized (the Fund calls it quotas) at the equivalent of U S $ 125 billion. That amount is soon sheduled to rise to approximately. US $ 185 billion, but it obviously pales in comparison with the reserves that could be released after European monetary union is in place.[60]

Moreover, even if formal European agencies do not overtly challenge the roles of institutions like the Fund and the World Bank, it is clear that monetary union in Europe will change the complexion of those agencies themselves. Decision-making may become more complicated, and actual decisions will become less associated with American interests than they have been in the past.

Under the terms agreed at Maastricht, monetary policy will be operated by an independent European Central Bank (ECB), which will be charged with a statutory organization to pursue price stability, while member governments will be subject to binding rules fur budget deficits and public debt-to-income ratios.[61]

Turmoil and chaos that reigned in the currency markets as a result of the currency instability in September 1992 has left a big question mark over the future of the European Monetary System (EMS) as envisaged by the Delors Committee Report (1988) and European integration blueprint laid out in the Maastricht Treaty. The EMS was established in 1979 at Brussels Summit. While Italy and Ireland joined reluctantly, U.K. opted out citing deflationary expectations if the sterling was linked to the DM. The Committee for the Study of Economic and Monetary Union, under the chairmanship of the European Commission and former French Finance Minister, Jacques Delors, submitted its report in 1989 recommending a gradual coordinated approach for transition to a single currency. The Maastricht Treaty signed by the 12-nation EC lays down the design for European Union, through common economic, foreign and defense polices and a single currency by the end of the present century.

The Delors Report suggests a three-step procedure for Monetary Union. In the first stage, all EC members join the ERM under the EMS. In the second stage, a European System of Central Banks (ESCB) is proposed to effect a coordination in national monetary policies. In the third stage, exchange rates are to be 'irrevocably fixed', and ESCB is to be transformed into a Central Bank for Europe on lines of the Bundesbank.

Instability is inherent in the process of the lengthy transition proposed in the Delors' Report. Gradual introduction of ECUs as a parallel currency will increase the supply of money and can be highly inflationary.[62]

The EMU may have received a temporary set-back as a result of the currency instability of September. It would be off the mark to either start composing a requirement for European integration or to hope that all members will quickly return to the route chartered by the Delors Report and the Maastricht Treaty. EC members may be divided over the pace for monetary integration. It appears that integration can be resuscitated if the divide is acknowledged and transparent route of "two-speed Europe" is followed giving those who are reluctant to accelerate the pace of integration an opinion to region at a later date.[63]

The character of the Atlantic relationship will depend heavily on whether American and Europe together will find the right formula for accommodating Europe's desire for greater autonomy and influence on global and alliance issues, along with America's desire for Europe to assure greater responsibilities for its defense and for global economic stability. The EC's march towards a social, political and economic union is an inevitable process which the U.S. must learn to accept with grace. Ofcourse, the U.S. has to be vigilant to shield its trade and investment interests in the EC. The issues of dispute between the two should be resolved through negatiations at both the bilateral and the multilateral levels. The EC, on its part, should become more outward looking and open, as it would not only be complying with the GATT principles of free and equitable multilateral trade , by doing this, but would also be deriving benefits in the long-run.

NOTES

1. Gary Clyde Hufbauer, ed., Europe 1992 - An American Perspective (Washington D.C., 1990), p. xix.

2. Richard Schwartz, "U.S. Interest in Europe's 1992 Process: An Analytic Survey", The Washington Quarterly (Washington D.C.), Vol. 12 No. 3, Summer 1989, p. 207.

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4. Richard Schwartz, "U.S. Interest in Europe's 1992 Process: An Analytic Survey", The Washington Quarterly, vol. 12 no. 3, Summer 1989, p. 209.

5. U.S. Department of Commerce, 1987, U.S. Foreign Trade Highlights (Washington, 1988), Commerce Department, Survey of Current Business (June, 1'988), and Eurostat (1988).

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8. Robert D. Harmats, "Redefining Europe and the Atlantic Link", Foreign Affairs (New York), vol. 68 no. 4, Fall 1989, p. 71.

9. Richard Schwartz, "U.S. Interest in Europe's 1992 Process: An Analytic Survey", The Washington Quarterly, vol. 12 no. 3, Summer 1989, p. 206.

10. Michael Calingaert, The 1992 Challenge from Europe: Development of the EC's Internal Market (Washington D.C.) 1988.

11. Arthur Anderson & Co., 1992, p. 36.

12. G.N. Yannopoulis, Customs Unions and Trade conflicts (London: Routledge, 1988), p. 128.

13. Gary Clyde Hufbauer, ed., Europe 1992 - An American Perspective (Washington D.C., 1990), p. 27.

14. Phillip Remin, "Brussels Babel", Wall Street Journal, May 17, 1989, p. A1.

15. Among Other advantages of the 1992 programme, multinational firms will be able to simply coroporate legal life by organizing all their EC subsidiaries into a Single European Economic Interest Grouping (EEIG), Sec Single Business Month, August, 1989.

16. C Q Researcher, vol. 1, No. 8, 1991 Congressional Quarterly, June 26, 1991, pp. 417 - 440. Also See, "Europe 1992", p. 423, Source - Eurostat.

17. See Office of the U.S. Trade Representative, 1991, Trade Policy Agenda and 1990 Annual Report of the President of the U.S. on the Trade Agreements Programmes, pp. 25-29.

18. C Q Researcher, Vol. 1, No. 8, 1991 Congressional Quarterly, June 28, 1991, p. 423.

19. Congressional Budget Office, "How the Economic Transformations in Europe will affect the U.S.", Dec. 1990, p.xi.

20. C Q Researcher, Vol. 1, No.8, 1991 Congressional Quarterly, June 28, 1991, p. 423.

21. "The EC's Programme for a Single Market in 1992", Department of State Bulletin, January 1989, p. 23.

22. Richard Schwartz, "U.S. Interest in Europe's 1992 Process: An Analytic Survey", The Washington Quarterly (Washington D.C.), Vol. 12, no. 3, Summer 1989, p. 207.

23. Donald T. Regan, "A Look Ahead: America's Economy and 1992", Ecuropean Affairs (Brussels), Vol.4, no.1, 1990, Spring, p. 122.

24. Eugene J. McAllister, "A U.S. Perspective on EC - 92", Economic Impact, no. 69, 1989, p. 20.

25. U.S. Chamber of Commerce, The Omnibus Trade and Competitiveness Act of 1988 (1988), Chapter 3. See also Ambassador Yeutter Seaking after his nomination as USTR, where he declared that he supports "free and open but fair trade, on a level playing field" (International Trade Reporter 2 [1985], 510). The Concept has also arisen in certain presidential statements; see Federal Register 49 (1984), 36813.

26. Art 58 of the Treaty requires member states to accord the right of establishment and national treatment to firms incorporated in other member states. There is an old debate whether Art 58 applies only to "genuine" EC Companies (i.e. EC - owned firms) or also to European Subsidiaries of, for example, US MNCs.

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28. Gary Clyde Hyfbauer, Europe 1992 - An American Perspective (Washington D.C., 1990).

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30. The EC applies a variety of local content standards depending on the context; for eg., 60 percent for EFTA autos in order to be imported entry free; 35-45 percent for goods to escape. Art. 115 National quotas. Siebert, "Single European Market", p. 18.

31. The Kyoto Customs Convention of 1973 sets forth internationally agreed rules of origin. The U.S., however has not signed Annex., p.1 of the Convention, which entered into force in 1977 and which lays out the subnational transformation rule.

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33. U.S. International Trade Commission, "The Effects of Greater Economic Integration within the EC on the US", USITC Publication 2204 (Washington, July 1989), pp.4-7. Also See Guy de Janquieres, "Hurdles too High", Financial Times, Nov.13, 1989, p.20.

34. "Survey of Europe's Internal Market", Economist, p.16.

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CHAPTER III

U.S. AND EC TRADE NEGOTIATIONS AT THE URUGUAY ROUND

US AND EC TRADE NEGOTIATIONS AT THE URUGUAY ROUND

The GATT, since its inception in January, 1948, has proved a useful body for international tariff bargaining. Its articles of agreement pledge its member countries to the expansion of multi lateral trade with the minimum barriers: reduction in import tariffs and quotas, and the abolition of preferential trade agreements.[1].

There are two important principles of "non-discrimination" in the GATT. The first is the "most favoured-nation" (MFN) principle, expressed in Article I of GATT. Although the phrase "most favoured" seems to imply a specially favourable treatment, in actuality the concept is one of equal treatment meaning that a country agrees not to give better treatment to any single nation than it gives to all the contracting parties of GATT. The second important principle of "non-discrimination" is that of "national treatment" which is the obligation to treat foreign goods equally to domestic goods, once the foreign goods have cleared customs and become a part of internal commerce.[2].

Up to now, seven major rounds of trade policy negotiations have taken place, whose aims were tariff cuts and the reduction of other restrictions on trade. The "Dillon Round" (1960-1962), planned a compensation for the disruptions to the trade of non-member states caused by the setting up of the European Economic community as well as a 20-percent tariff reduction for a broad range of industrial goods.

The "Kennedy Round" (1964-67) led to global tariff reduction of roughly 30 percent for industrial goods. In addition, an anti-dumping code was elaborated and international agreements reached for the grain market. By now, the EEC had developed into a full-scale customs union and it had begun to adopt protectionist policies. As a reaction to this, the Kennedy administration in 1962 introduced a bill aimed at vast reciprocal trade reductions. This was called the Trade Expansion Act. As per the Trade Expansion Act, the US Administration had the right to make a 50 percent tariff reduction on all commodities. The Act was net non-disimmunatory. It allowed the largest tariff cuts to be concentrated between the US and the EEC. The LDCs were appeased by unilateral tariff cuts by the industrial countries on certain tropical primary products. Tariff reductions were concentrated upon the manufactured goods that were of principal interest to developed countries or on the raw materials that were indispensable to their industry. These tariff concessions were negotiated on a reciprocal basis and were extended to all contracting parties under the most-favoured-nation clause. Agricultural products were generally excluded from the Kennedy Round. This was because the US wanted that agricultural policies and trade in agricultural goods should be exempted from the purview of the GATT as this was the time when the US pursued a policy of extensive farm subsidies that kept American agricultural prices high. The EEC at that time was aiming at self-sufficiency in the agricultural sector.[3]

During the "Tokyo Round" (1973-1979) there were additional negotiations on the removal of non-tariff barriers. These "non-tariff barriers" (NTBs) are artificial barriers which have been put up to circumvent tariffs.[4] During the 1960s the GATT undertook the task of cataloging non-tariff barriers of all participating countries. By 1973, the GATT had managed to catalogue 800 NTBs.[5] The UNCTAD had also conducted a research project to inventory trade barriers.[6]

Scholars have tried to estimate the "tariff-equivalent" effect of the various non-tariff measures. A monograph by P. Morici and L. Megna of the National Planning Association suggests the aggregate tariff equivalent value of most U.S. non-tariff measures is approximately 9 per cent.[7]

John Jackson[8] quotes the following example of a non-tariff measure. A country may require canned foods to have labels in the language of that country and no other so that the economies of scale are lost by the requirement of different labels for different markets. Another important example of a non-tariff measure has been the "variable levy" utilized by the EC in its Common

Agricultural Policy (CAP). The "variable levy" is a tariff charged on imports, but the tariff varies frequently, even day to day, the tariff is usually set at a level calculated to offset any price advantage which foreign agriculture goods might have over goods produced within the EC. When the tariff is fixed, then efficient foreign producers will be able to overcome its effects by becoming more efficient and lowering their prices. On the other hand, when the tariff varies, its becomes virtually impossible to remain competive for the foreign producers.[9]

Coming back to the "Tokyo Round", it was seen that it led to a reduction of customs tariffs for the industrial products of the nine major industrialized countries.[10]

The latest GATT round - the Uruguay Round - began with a ministerial meeting in Punta del Este, Uruguay, in September 1986. This Round of the GATT negotiations was scheduled to be concluded by December 1990. However, due to the cropping up of intractable differences of opinion between the negotiating partners, especially over the agriculture sector, the round could not be completed as per schedule. Views not only differed between the EC and the USA, but also between the EC and other major exporters of agricultural products. (For example, Argentina, Australia, Brazil, Chile, Canada, Colombia, Malaysia, New Zealand and Hungary which together comprise the Cairnes Group).

The General Agreement on Tariffs and Trade has till now been an international agreement concerned only with cross-border trade in goods. Until negotiations began at Punta del Este in 1986 on the current Round, the underlying principle of the GATT was that it was possible for countries to agree on rules for the conduct of orderly international trade without encroaching upon their Sovereign economic space. However, now this principle is directly under challenge mainly from countries of the North especially from the United States. This has prevented the forging of a consensus amongst the participants and had resulted not only in the deepening of the fissure between the North and the South but also in producing a chink in the solidarity amongst countries of the North.

The U.S. economy has lost international competitiveness, and has been running the world's largest trade deficit since the early 1980s. As a result, the U.S., by far the largest market in the world, has also become the largest debtor. The U.S. administration holds that while it has played fair, providing open markets, it has been subjected to protectionist policies elsewhere. As a consequence, the US has embarked on an aggressive policy of opening up other economies both bilaterally, through the Super and Special 301 provisions of its Omnibus Trade and Competitiveness Act, and multilaterally, by insisting that the GATT broaden its horizon by bringing areas, which had so far been excluded, within its purview.

Thus to combat its economic ills, the ideologically free-trade-oriented and market oriented economy of the U.S. is giving way to greater protectionism. It is the internal economic problems of recession and declining competitiveness which has compelled the US to resort to a more aggressive trade diplomacy.

The areas which the U.S. wants to include under the aegis as the GATT are agricultural subsidies, General Agreement on Trade in Services (GATs), Trade Related Intellectual Property Rights(TRIPs), and Trade Related Investment Measures (TRIMs). An important objective of the Uruguay Round is to cover tariffs by a third on average, with higher tariffs being lowered to a much greater extent than the lower ones, in order to achieve a world-wide harmonisation.[11] One objective of the negotiations is the liberalisation of trade in forestry products, fisheries products, non-ferrous metals, and energy raw materials. Tropical products were also given priority consideration from the outset.

After over twenty years of special GATT regulations within the framework of the World Textiles Agreement, a primary objective of the Uruguay Round is the reintegration of the textiles sector into the GATT regime. Since 1974, world trade in textiles and clothing has been regulated by the Multi-Fibre Agreement (MFA) negotiated within the GATT framework. Developing countries especially can have an edge in the textile sector because it is labour-intensive and the capital input does not amount to much. However, through multilateral and bilateral agreements, the industrialized countries, the main importers of these products, control textile imports from the developing countries. Thus the developing countries will derive the maximum benefits from the phasing out of the Multi-Fibre Agreement (MFA) which allows the developed countries to impose discriminatory restrictions on textile imports inconsistent with the GATT rules. Dunkels proposals regarding this promise a 10 year phase-out period but the developing countries will have to wait the full ten years to receive significant gains, with the benefit in the first seven years being negligible.[12]

The Dunkel Draft Text is primarily an attempt to restructure the GATT in order to make it more in tune with the new world order where the shots are called by the western capitalist world in general and the U.S. in particular. The Dunkel Draft has very cleverly attempted to narrow the differences between Europe and the U.S. by being more generous to the former on farm subsidies while it has sought to compensate the U.S. by being more expansive towards it on other issues like GATs, TRIPs and TRIMs at the expense of the developing countries. Thus the text speaks of domination by the so-called first world.

New issues like services have been put on the GATT agenda in the current Uruguay Round. The Dunkel Draft Text, released on December 20, 1991, by Arthur Dunkel, Direction General of the GATT, has embodied a set of proposals on services in a "General Agreement on Trade in Services" (GATs). The proposals aim at the opening up of services such as finance and banking, insurance and telecommunications, besides health, transport and education. The U.S. and the E.C. seek easier access to third world markets for insurance, accounting, consulting, construction and banking.[13]

EC directives on financial services (banking, insurance and securities) as well as on the free movement of capital goods are an important constituent of the Europe 1992 programme. These directives have been brought forth to combat competitiveness from the outsider countries, i.e. countries which do not form part of the European Community. It was thus subsequent to the issuing of the Second Banking Directive that the spectre of a "Fortress Europe" came to cast its shadow on free multilateral trade.

The transatlantic debate was triggered in 1988 consequent to the comments of then Commissioner Willy De

Clerq when he asserted that the EC would not license third-country banks if those countries failed to give EC banks reciprocal access. Historically, reciprocity has meant the exchange of equivalent concessions. But in the 1980s the U.S. Congress reinterpreted it to mean mirror-image treatment sector-by-sector as was demonstrated by Senator John C. Danforth's telecommunications amendment in the 1988 Trade Act.[14] However, the U.S. officials interpreted the second Banking Directive of the EC according to the historical meaning of reciprocity. They reacted strongly because U.S. legislation (The Glass Stegall Act, 1933) does not allow European banks as much latitude in the U.S. as the EC directive allows banks in Europe.

The initial U.S. response to the European second banking directive was given in August 1988 by the then Deputy Secretary of the Treasury, Peter McPherson. He gave preference to "national treatment" over "reciprocity".[15] The dispute was finally resolved in the spring of 1989 when a modified Article 7 on "Relations with Third Countries" was proposed by the European Commissioner, Sir Leon Brittan, and was inserted in the second Banking Directive draft adopted by the European Council on July 10, 1989.[16] In the modified version of the draft the EC would accept national treatment reciprocity provided it resulted in equivalent market access.

Due to pressure from the U.S., services have found a place on the GATT agenda, however, because of their economic and political complexity, the principles of GATT which are applied for trade in goods cannot be adopted for trade in services. Nonetheless, the Second Banking Directive can serve as a model for GATT. It professes the principle of "conditional national treatment" as opposed to the more objectionable "reciprocity" formula. It is worth noting here that it is only in the banking sector that the principle of "conditional national treatment" applies. As regards other E.C. financial services directives the earlier "reciprocity" principle applies. Thus the Second Banking Directive formula has been put into use in the banking sector and has not been applied to the other financial services directives. As a result it can also serve as a model for the other financial services besides banking life insurance, securities et. al.

The principle adopted in the Second Banking Directive is that of "conditional national treatment" as distinguished from the GATT principle of merely "national treatment." The GATT principle of "national treatment" in its broadest formulation requires that "the products of territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internalsale." (Art III (4) of GATT).[17] The GATT calls for no less favourable treatment in terms of formal laws and regulations, however, it no where considers the question of national treatment in terms of market access. The EC Second Banking Directive, on the other hand, talks of "conditional national treatment". Besides, no-less favourable treatment regarding treatment in terms of formal laws and regulations, the EC directive calls for equivalent market access as well. The EC Second Banking Directive calls for negotiations whenever it appears that a third country is not "granting community credit institutions effective market access comparable to that granted by the community to credit institutions from that third country."[18]

Because there are no international rules covering services at the moment, the EC argues that it can adopt its principle of "conditional national treatment" in its financial sector. The European Community holds that it can bring about the requisite changes in its directive later on if it is necessary in order to make it conform to any subsequent GATT agreement. This fact has been incorporated in the last paragraph of Title III of the Second Banking Directive, which states, "measures taken pursuant to this Article shall comply with the community's obligations under any international agreements, bilateral or multilateral, governing the taking-up and pursuit of the business of credit institutions."

Another new issue on the agenda, is the protection of intellectual properly rights (TRIPs). The reasons are inadequate patent protection in many developing countries and the spreading of world wide product piracy. Again like in the case of services, it was primarily the US which proposed to place IPR (Intellectual Property Rights) issues on the GATT agenda. The original GATT Agreement deals with the issue of IPR in a limited manner as there are a few provisions relating to it. The U.S. wants to make intellectual property protection a major topic of concern in the multilateral trading system.

The U.S. first decided to draft a GATT code to discourage counterfeiting with the help of the other participants. Work was not completed on this proposals before the Tokyo Round ended in 1979, and when the draft text was finally prepared, objections from the developing countries prevented other industrialized nations to give the U.S. the green signal. It took several years for the U.S. to win approval for inclusion of TRIPs issues on the negotiating agenda. The GATT contracting parties finally agreed in the Punta del Este Conference of 1986 to include the item in the ministerial declaration on the Uruguay Round. The document stated inter-alia that "in order to reduce the distortions and impediments of international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade, the negotiations shall aim to clarify General Agreement provisions and elaborate as appropriate new rules and disciplines."[20]

The negotiating parties also agreed to consider rules and disciplines on trade in counterfiet goods and agreed that talks on intellectual property shall proceed without clashing with the principles of the World Intellectual Property Oganisation (WIPO).[21]

Several studies conducted recently have supported the view that intellectual property violations are costly for the U.S. The U.S. International Trade Commission estimated that in 1986 alone, IPRs violations cost American industries $ 23.8 billion in lost domestic sales, exports, and royalties.[22] The Commission held that the larger and more advanced developing economies were principally responsible. The U.S. Administration holds that a lax intellectual property regime has contributed to the relative economic decline of the U.S. and has frustrated the U.S. efforts to revive its industries.

The Americans want to achieve a comprehensive agreement on TRIPs and the U.S. goal is to make IPR protection an integral part of the international trading system. Thus the aim is to primarily protect American intellectual property. The U.S. has implicitly offered that in exchange for a commitment on this and other issues (especially services, investment and agriculture), the U.S. will further reduce its trade barriers, and may refrain from taking unilateral action against its trading partners.[23] The U.S. threatens to employ various coercive instruments at the bilateral level, if it is prevented from achieving its goals at the multilateral level.

As regards TRIPs there is almost a total sell-out to the U.S. position. The U.S. has managed it by the application or threat of application of its bilateral coercive measures on nations. The TRIPs draft states that "patents shall be available for any invention, whether products or processes" and "patent rights enjoyable without discrimination as to the place of invention the field of technology and whether products are imported or locally produced." The draft sets a minimum expiration period for patents at 20 years, does away with compulsory licensing, and shifts the burden of proof from plaintiff to defendant in the case of disputes involving process patents.[24] As a result, now it would be the alleged infringer of a patent who will have to disprove the allegation. The Dunkel Draft Text extends product-patents to food, chemicals and drugs and pharmaceuticals to such areas as atomic energy and biotechnology.

The Dunkel Draft Text insists on "national treatment" of foreign investors and has provided greater latitude to the multinationals by bringing about laxity in the earlier rules relating to the use of local raw materials and components of exports. The TRIMs proposals aim at the removal of trade restrictive and investment distorting measures. Thus these proposals will reduce the bargaining power of the host nations vis-a-vis multinational companies and will affect the balance of payments of the developing countries. Because TRIMs constitutes a part of the GATT agenda some protection is available to countries facing balance of payments problems under Article XVIII.

The U.S. accepts the sovereign right of governments to regulate foreign direct investments by imposing conditions on investors regarding location, employment procurement of materials and components, exports and degree of local participation in ownership and direction. But it wants regulation only within limits. The proposal to negotiate General Agreement rules on TRIMs originated in the early 1980s when the U.S. Administration began to show concern with attempts by a number of countries, e.g. Canada and Mexico, to negotiate undertakings (on "performance requirements") when foreign investors sought to establish manufacturing facilities or take over or buy into existing domestic manufacturers.[25]

The EC submission to the UR (Uruguay Round) negotiating group on TRIMS is that the EC will remain primarily concerned with reducing or atleast bringing under control the use by member states of subsidies and other incentives to foreign direct investment. It will also exercise control over performance requirements whichdd have to be fulfilled by undertakings to member states, which maydd affect trade and therefore may distort competion within the Community, if not kept an eye on.

EC proposals on TRIMS at the Uruguay Round have stressed on the fact that any TRIMS agreement should be based on an examination of the existing GATT articles and should focus primarily on these investment measures which overtly and directly distort trade. The EC proposes eight types of investment measures which are "directly trade related". These are local-content requirements, trade-balancing requirements, exchange restrictions product-mandating requirements, "manufacturing limitations with regard to components", and export-performance requirements.[26]

From the perspective of political costs, and agreement that yields any concessions on services, TRIPS, TRIMS, and agriculture (where U.S. grain exports are expected to profit from liberalization) represents a nearly all-win situation for the United States. The only political pain would be from the modest promise of market access on dairy products, peanuts, and sugar, and from concessions on textiles.

On the other hand, for the EC, the producers would profit equally from agreements on services, TRIPS, and TRIMS, but they are relatively ineffective lobbies; therefore, the political payoff is negligible. By contrast, liberalization of agriculture poses tremendous political difficulty in both France and Germany. So from the EC perspective, the agreement currently on the table looks alarmingly like an all-lose proposition in terms of political costs.

According to Jagdish Bhagwati, the result of such an agreement would be a massive imbalance of political costs for the US and ECd and this bias in favour of the U.S. would have to be rectified if the Uruguay Round has to come off. The U.S. must be more giving by allowing greater market access and reduction of protectionist measures to the EC.[27]

U.S. farmers and their political representatives are concerned about Western European subsidies. High internal price supports under CAP cause Western European consumers to pay some 50% more for beef and some 40 per cent more for wheat than world prices. Western European farmers produce large surpluses of beef and wheat as well as surpluses of price-supported milk products, barley, pork, and sugar. These surpluses are sold on world markets at heavily subsidized prices. The EC's share of world food exports increased from 8.3 per cent in 1976 to 18.3 per cent in 1981, while the U.S. average share remained level at about 18 per cent.[28]

E.C. agricultural subsidies remain an intractable negotiating issue. GATT rules and the Tokyo Round agreement on subsidies permit export subsidies for primary agricultural products so long as the subsidizing country does not get more than its share of world export trade. The E.C. holds that the CAP is the very essence of its existence and its abolition will lead to the EC falling apart.

Agriculture has been high on the U.S. agenda in the GATT. The U.S. has brought forth a proposal for phasing out, or converting to tariffs, all trade-distorting subsidies and import restrictions. The Common Agricultural Policy (CAP) is a major target in agriculture negotiations. If an agreement is worked out on agriculture subsidies it would go a long way toward rehabilitating the GATT, benefiting U.S. trade and reducing frictions between the U.S. and E.C.

At the Uruguay Round of the GATT negotiations, Arthur Dunkel in his "Dunkel Package" has proposed changes in the annual support of \$ 300 billions provided by the governments of the developed countries as direct and indirect support to their agricultural sector. And the region most affected by this would be the E.C. The Dunkel Draft demands major changes in the internal agricultural policies of a nation. The Dunkel Draft Text requires a reduction in the price support to farmers, of a minimum of 13.3. percent, by 2003, in all cases where the domestic support is more than 10 per cent of the value of production. Thus the ability of governments to subsidize agricultural inputs has been severely curtailed in the Dunkel Draft Text. It allows for exemption from reduction for agricultural inputs only in the case of subsidies from low-income or resource poor producers. By 1986, the U.S. was spending about \$30 billions and the E.C. about \$ 22 billions on agricultural subsidies. Even if these are reduced by24 percent, as required in the Dunkel Draft, the agricultural commodities of the developed countries would continue to be heavily subsidized.[29]

The CAP was criticized severely by the U.S. and other agricultural exporting nations. The OECD (Organization for Economic Cooperation and Development) took up a study of the relationship between national agricultural policies and international agricultural trade. The OECD study affirmed the fact that national agricultural support and protection had a detrimental effect on the functioning of the international trading system. It showed that more than half of the international expenditure on farm income support resulted from government's having to offset each other's subsidies. The empirical analysis of agricultural protectionism conducted in the second half of the 1980s in the OECD also showed that while all countries were to be blamed, the EC's CAP, however, should take the largest blame for distorting global agricultural production, trade, prices, and incomes to the largest extent.[30]

The EC was pressurised to give in due to two developments. First, the U.S. gave loans to farmers and reintroduced export subsidies on grains under the Food Security Act of 1985 and allowed the dollar to devalue. These measures had the effect of lowering world market prices and thereby increasing the budgetary cost to the community of exporting its grain surpluses. Second, the formation of the Cairnes Group of Fair Traders in Agriculture meant that the EC had to deal not only with the U.S. but also with coalition of small exporters of agricultural products which had been pushed to the wall by the CAP.

The declaration that finally launched the Uruguay Round of GATT negotiations in September 1986 stated that the objective for agriculture was to "achieve greater liberalization... and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines."[31]

Concrete negotiating offers were finally tabled in Geneva in November, 1990.[32] The U.S. and the Cairnes Group offered to reduce trade-distorting internal supports and market access barriers by 75 per cent over ten years and to cut export subsidies - considered the most offensive of all trade measures - by 90 per cent in the same period. They also proposed that all non-tariff border measures should be converted into tariffs. In response, the EC offered only to lower its overall level of support by reducing its support by 30 percent arguing that this would induce reductions in market access barriers and export aids. Further, the community stated that its price for taking this step was that it should be permitted to increase protection against imports of foodgrain substitutes and oilseeds.

In December 1990 at Brussels, the EC indicated informally that it might improve its offer by granting imports a minimum 3 per cent share of its internal market, by excluding oilseeds from protectionist measures and by considering quantitative limits on its agricultural exports. This did not provide an adequate basis for the agricultural negotiations to proceed lacking an agreement on agriculture, the US and some of the Cairnes Group countries declined to continue to negotiate on other areas of trade and the overall negotiations were suspended. Negotiations were renewed at a technical level in April 1991. When the community finally agreed to negotiate in agriculture if separate commitments were made in these areas of domestic support, border protection, and export subsidies.

The breakdown of the Uruguay Round in Brussels in December 1990 was unprecedented in the history of the CAP. The policy had with stood the previous attacks made on it at the Kennedy and Tokyo Rounds. At both the rounds, the US had the succumbed to EC demands rather than let the rounds collapse.[33]

However, in Brussels in 1990, the US alongwith the Latin American members of the Cairnes Group declined to negotiate on other trade issues like TRIMS, TRIPS, market access, unless the EC did not bring about the requisite reforms in the CAP. This has two consequences. First, the linking of agriculture to other issues and thereby to the ability to conclude the Uruguay Round as a whole, made the CAP on threat to the future of the international trading system. Second, there were rumblings in the EC itself that the protection of a sector which accounted for only 3 per cent of output and 8 per cent of employment and exports could hold up progress in areas of trade that were vital to the Community's future.

By the end of 1990 it was apparent that an acceptable deal on agriculture was essential for the successful conclusion of the Uruguay Round, and that the broader interests of the community and the survival of the GATT system would be in jeopardy if the requisite agricultural trade reforms were not brought about.

The Commission made a concrete proposal in July 1991 to the Council of Agricultural Ministers. The proposal was named the MacSharry Plan after the Commissioner for Agriculture, Ray Mac- Sharry. The Primary objective of the plan was to reform the cAP and formulate a new style CAP.

Essentially, the plan calls for three things - a reduction over a three-year period in the level at which market prices are supported within the community, the provision of direct income payments to compensate for market revenue losses due to reductions in market price supports, and direct supply control measures that will curb the rate of growth of agricultural output in the community. The MacShaery Plan is very akin to the proposals made by the U.S. and the Cairnes Group on Agricultural policy and Trade Reforms.

The U.S. which initiated the inclusion of agriculture in the current round of GATT talks, was intent on doing away with the CAP, which with its, heavy subsidies, protected the U.S'. chief rival in the agricultural sector--France. The bone of contention between the U.S. and the EC was agricultural subsidies in general and oilseeds in particular. The primary cause for the continued strife was the contrary interests of the influential soybean-producing farm lobby in the U.S. looking for a more open market and the EC's attempts to protect CAP. All efforts to reconcile differences between the two came to naught as each side continued to maintain an intransigent posture.

A trade war was averted when the US and the EC made a deal on farm subsidies in November 1992 known as the Blair House Pact. This Pact aims primarily at the gradual reductions in farm subsidies. The resolution was basically a compromise of sorts. The U.S., which made the winning concession, has agreed to limit its exports of soybean and cereal substitutes to the EC while accepting that the EC would reduce its land under oilseeds by 15 per cent rather than limit the actual amount of produce. The EC is also to reduce its subsidized farm exports by 20% over a six year period from 1994.

However, all's still not very well on the agricultural front. French farmers who depend on massive EC subsidies, are protesting aggressively. This is because with the help of $7.7 billion in annual European community price supports, France is now the world's No. 2 food exporter after the U.S.[34] The French

Government found the deal "unacceptable". Owners of more efficient American farms hold that the EC committed only to a six-year, 20% cut in internal price supports, and a 21% cut in the volume of commodities receiving export subsidies while U.S. soybean growers are complaining that "we have been called on to be much more flexible than is fair."[35]

If effective reforms are brought forth in the CAP, there would be an end to the trade war between the US and EC over agricultural subsidies and it will result in the reduction of agricultural subsidization. This would mark the end of the forty year period in which agricultural trade has escaped the purview of the GATT and would make the EC more responsible towards its role of contributing to the fair functioning of the international economic system.

Traditional trade impediments, like tariff and non-tariff barriers, will affect the ability of U.S. companies to take advantage of the single European market. The Uruguay Round will act as a forum for the outsiders to voice their grievances that while European goods circulate freely within the single market, goods of third countries are discriminated, against through the imposition of the Community's Common External Tariff (CET).

The prime U.S. objective behind the GATT Dillon Round (1960-62) and Kennedy Round (1964-67) was the reduction of the Common External Tariff(CET).[364] To achieve maximum tariff reductions, the US followed the new formula approach rather than the older request and offer negotiating techniques.

The basic difference between the two tariff negotiating methods is whether the negotiations start from a maximum or a minimum position. Under the old request-and-offer system, negotiations initially offered small tariff cuts, increasing them in the process of negotiation until a reciprocal balance was struck, under the formula approach used in the Kennedy Round, each participant agreed to a 50 percent across - the board cut, subject to a list of exceptions. The negotiations then took place on exception lists. In the Tokyo Round, a similar formula approach was taken in both cases, tariff reductions ended up in the 30-35 per cent range compared with the 15-20 per cent range achieved under the request - and - offer approach. Thus the formula approach leads to deeper cuts than the old request-and-offer approach.[37]

Virtually all developed country participants in the Uruguay Round favour the formula approach. Only the U.S. has gone back to the old request - and - offer approach. In January 1990 the GATT negotiations reached a compromise : each country was free to choose its own tariff-reduction method, provided the result was an overall reduction of 30 per cent in the nation's tariffs.[38]

Another issue of major concern to the US business Community is the formulation of industrial standards and the mutual recognition of testing and certification of industrial products. The U.S. companies will benefit from the development of a single standard and a community wide testing and certificating system to replace twelve national standards and systems. The US objective is to make the EC adopt internationally agreed upon standards and the recognition and acceptance of testing and certification in the U.S.

On May 31, 1989, U.S. Secretary of Commerce, Mosbacher and EC Vice President for Internal Market and Industrial Affairs, Bangemann issued a joint communique dealing with standards, testing and certification.[39] The agreement goes a long way in addressing US concerns by ensuring openness and transparency in the mutual sections of standards and the laying of the framework for international standards - setting; by agreeing that US and EC imports should have equal access with domestically produced goods to testing and certification procedures; and by mutual recognition of testing and certification done within each other's market.[40]

On July 5, 1989, the Commission approved a paper brought forward by the EC Vice President for Internal market and Industrial Affairs, Bangemann. This paper was entitled "A Global Approach to Certification and Testing."[41] It held that -

"The introduction at the Community level of mutual recognition, of methods and structure designed to establish conformity (with essential EC standards) will make the European market more readily accessible to products from non-Community countries which satisfy European quality criteria, since these products will no longer have to be subjected to national tests. By the same token, there is a legitimate case to be argued for negotiations between the Community and its external partners on the mutual recognition of testing, inspection and certification methods so as to ensure, for example, that products which have obtained the Community quality mark can have unhindered access to the markets of non-member countries."[42]

Another important area of concern to US industry is public procurement. According to the Cecchini report, public purchasing accounts for 15 per cent of the European GDP.[43] The GATT Agreement on Government Procurement known as the GATT Procurement Code aims at greater international competition in the government procurement market. The Code comprises of laws, regulations, procedures, and practices regarding government procurement in order to make it more transparent and ensures that there is no discrimination in the treatment meted out to foreign products and supplies.

As per the finding of the Cecchini report that four sectors excluded from its first directives- telecommunications, energy, water and transport-are costly both in terms of government spending and of a fragmented community market, the Commission proposed directives that would open these sectors as well to EC-wide competition.[44] Now with the Commission initiative on the four previously excluded sectors, the prospects for application of the GATT procurement code to negotiations have brightened.

The opening of the four sectors - telecommunications, energy, water and transport - to greater international competition is fraught with difficulties. In all countries, governments will encounter strong resistance from domestic interests. Because Council decisions in this area can now be made according to new qualified majority requirement, that may make things easier. However a blocking minority may still make approval of procurement directives difficult.

The Commission proposal has addressed the question of relations with third countries. It says that "where an offer is made by a firm established in a member state, the directives will apply to it even if the firm is a subsidiary or agent of a third country firm and the goods or services to be rendered under the offer have their origin entirely in the third country."[45]

The Commission's proposal for government procurement is a mirror image of the US Buy American Legislation. The basic Commission rule follows the US 50 percent local content requirement. According to some industry groups, the US has given more than what it has received under the GATT procurement Code and that the US is more open in government procurement matters than the EC member states. Further it is seen that even if everything is done to open public procurement both within the EC and other signatories of the GATT, in nearly all countries, government purchasing agencies tend to buy national irrespective of all rules and regulations. Thus the attitude of the procurement agencies and there personnel has to be changed if equivalent treatment has to be meted out. Further, no matter how open the EC procurement agencies may become, until a GATT code covers government procurement a local content problem will persist for U.S. companies selling to European government agencies.

Another major area of concern to the American business community in the Europe 1992 programme is the "rules of origin" issue. At the moment there is no good fourm for the negotiation of issues raised by the rules of origin. There are primarily two tests for the determination of origin for customs purpose. One is the test of "substantial transformation" and the other is the "value-added" test. Under the "substantial transformation" test, a product's origin is the country where it underwent its last substantial transformation. The "value-added" in the test by this name is the difference between total revenue of a firm, and the cost of bought - in raw materials, services and components. It thus measures the value which the firm has 'added' to these bought in materials and components by its processes of production.[46] The internationalization of production has made it harden to determine the origin of a product.

There is no formal local content requirement for a product to obtain EC origin. The general used test is that of "substantial transformation" unless some exception is agreed to intentionally or a decree is passed by the European Commission Customs Union Service which is responsible for origin matters.

Recently the original rule for semi-conductors was changed from the last substantial transformation to the most substantial transformation for U.S. suppliers of semi-conductors and microprocessors, this change has meant a considerable investment in European plants in order to avoid loss-making.[47] US Semi-conductor companies have to fulfill a certain local content requirement in order to become eligible for government procurement as to avoid anti-dumping duties. Even when local content is not formally required, U.S. companies do not want to take a chance and so they end up using European components.

It is alleged that once the single European market comes into being there would be no means of checking the transshipment from a member state that maintains restrictions to a member state that does not. In order to prevent this either the national quotas will have to be phased out or there will have to be a Community wide quota, different national quotas can result in a host of problems. For instanc, the French argue that a Nissan Car, which is essentially a Japanese Car, produced in the U.K. with 70 per cent local content would not qualify as British and would thus be subject to French quota on Japanese auto imports. France insists that in order to qualify as British product, the local U.K. content would have to be raised to 80 to 90 percent. However, the British held that the Bluebird (Nissan) qualified as a British product despite the local content being just around 70 percent. In order to avoid problems like this national quotas will have to be done away with and may be replaced by a Community-wide quota.

The Commission possesses the right to authorize national protective measures under Article 115 of the Rome Treaty.[48] With regard to discriminatory import quotas, the Commission holds that national quotas must go and that there will be no Community-wide quotas. Paragraph 44 of the Commission's Fourth Progress Report on implementation of the White Paper Programme[49] states that there has been a substantial reduction in the use of monitoring measures (a drop from 1,800 in 1985 to 500 today) and market protection measures under Article 115 and talks of the elimination of all controls.

Nonetheless, if the Uruguay Round fails to deal with the problem of the misuse or lack of use of the GATT safeguard procedures (Art. XIX) it would lead to the unrestricted list of VERs (Voluntary Export Restriction) especially if the economic situation of a country is bad. The European Commission may then find it difficult to exercise its authority under Article 115 and may be forced to adopt community-wide VERs.

The EC has also come up with regulations against the circumvention of anti-dumping duty. In 1987 the EC imposed a duty on finished products assembled in the Community from parts imported from Japan especially in the case of products which were trying to circumvent anti-dumping duties by the assembly of parts in the Community. This is generally referred to as "Screwdriver Technology". The EC regulations had a salutary effect as it resulted in the increased use of non-Japanese, mostly Community parts. The EC regulation applies only to products assembled in the community.[50]

According to Joseph Greenwald[51], there are primarily three approaches to negotiations over U.S. trade with Europe. The first is a global approach which seeks to use the EC single market programme and GATT negotiations to achieve further progress toward opening markets world wide by reducing barriers to trade, services and investment. The second is the nationalist approach which deals primarily with issues of particular interest to the U.S. Under this approach the U.S can resort to the use of or just threaten to use bilateral coercive measures if it wants to derive concessions from the EC. The third is the approach which aims at an exclusive U.S.-Community deal something on lines of the EC-EFTA (European Free Trade Association) relationship.

The U.S. is banking heavily on the Uruguay Round of the GATT negotiations to resolve its differences with the EC. If the U.S. takes recourse to the global approach, it will be giving greater legitimacy to multilateral negotiations as a means of resolving disputes under the aegis of the GATT. The U.S. aims to revitalize and redesign the GATT so as to bring it to the Centre-stage of the multi-lateral trading system.

At various summit meetings in 1991, the participating countries emphasised the need for a successful conclusion of the GATT negotiations. At their meeting in Paris on 4 and 5 June 1991, the Economics Ministers of the most important industrialized countries adopted the following resolution on international trade: "Among the economic tasks which present themselves at the international level, the Uruguay Round has top priority. A success of these negotiations, which will further strengthen the open multi-lateral trade system, remains a decisive pre-requisite for a sustained growth of world trade and the world economy."[52] At the London Economic Summit on 15 and 16 July 1991, the heads of state of the seven leading industrialized countries pledged to do all they could to bring about a successful conclusion of the Uruguay Round.

The Uruguay Round is an ambitious venture as it deals not only with the reduction of tariffs, but also with improved market access, the liberalization of trans border service transactions, the legal protection of investments and industry, the strengthening and restructuring of the institutional framework of the GATT.

If there is a conflict between completing the internal market and the Uruguay Round, the EC would give precedence to the former over the latter. From the US perspective, two potential dangers exist with regard to the Uruguay Round of negotiations. First, the EC decision-making procedures are very rigid and if the EC sets its internal rules and regulations it would be very difficult changing them if they run against the GATT solutions to the issues in focus. Second, the EC by giving preference to the Internal Market Programme, will hinder progress in the Uruguay Round by focussing more on the internal market than on the GATT.[53]

Washington holds that it is unable to exercise a significant influence on decisions because the EC's decision-making process is not transparent enough. Further, the U.S. government and private sector do not have sufficient access to decision-makers at an early enough stage and as a result it so happens that by the time the issues come to U.S. attention, decisions have been taken or proposals have proceeded to far to be altered significantly.

The EC on the other hand, claims that U.S. concerns are over-stated. The EC holds that the U.S. has been well informed about activities inside the Community. In general, the U.S. government and to a large extent the private sector (U.S. firms based in the EC), have enjoyed considerable access to the Commission and other EC institutions. Nevertheless, U.S. interests would clearly be served by greater access to policy-making within the

European Commission.[54]

US lobbying is taking place at all EC levels. This has enhanced the ability of the US Government as well as US private interests to affect the outcome of the deliberations in the Community.

The EC decision-making process has been given a new face by the replacement of the requirement for unanimity by the qualified majority rule for most issues.[55] It takes three (two large and one small) or four (one large and three small) countries to block a directive. This means that a single member state can no longer prevent either protectionist actions or liberalization measures. Thus now decisions can be taken much more easily as qualified majorities are simpler to get than a unanimous agreement. US negotiations should take this change into consideration while negotiating with the EC.

The economic climate within the EC is bound to play a crucial role in negotiations with outside countries especially the U.S. If the economic situation deteriorates and the economy is taken over by stagnation or recession, then the EC would be coerced into adopting a harder attitude towards third countries. The European community in such a situation would argue that the 1992 benefits should not be extended to third countries if the member states haven't acclimatized themselves to the deregulation and liberalization measures and the economy is not looking up.

It is argued that the US should simultaneously work to improve relations with the European Commission, the member states, and the European Parliament. The US should link the Europe 1992 and Uruguay Round issues by improving the coordination between the US missions in Brussels and Geneva. The US representation to the two places should be similar so that the representatives are conversant with both the sets of issues and are able to promote the US interest by the effective inter-linking of bilateral with multilateral negotiations. The EC, likewise should try to improve the co-ordination between the external relations and the internal market.[56]

The US should try to make the atmosphere for negotiations as conducive as possible. Instead of using or threatening to use bilateral coercive measures, the US should use its diplomatic skills to extract the maximum concessions from the European single market programme.

Access to the single European market will not depend only on deregulation levels. The successful penetration of the EC market will also depend on the competitiveness of American products and services. Lobbies for TRIPS and TRIMS have been given representation by the US adminsitration in negotiations which are seeking to promote US interests at both Geneva and Brussels. TRIPS and TRIMS were put on the trade agenda inspite of the US government not being able to table sufficient proof that not having IPR protection hampers technical progress nor the fact that IPR protection can work to the deteriment of the developing countries even though it may enhance efficiency. The US is of the view that inadquate protection of intellectual property amounts to piracy or theft. [57]

The EC holds the largest share of world trade and as a result it relies heavily on foreign trade, more so than any other group of countries and is thus interested in making the ongoing GATT round a resounding success. In 1988, the EC had a 20 per cent share of world trade, whereas the USA had 15 per cent and Japan 12 per cent. In 1989, external trade alone accounted for 20 per cent of the gross domestic product (GDP) of the EC. [58] The EC Commission has decided that the internal market would not be closed out from the outside world but would remain open in accordance with the GATT regulations vis-a-vis non-EC states.

Due to the loss in economic clout over the world trade system, the US is resorting to protectionist measures. The American agricultural policy is defined by substantial protectionism, when President Franklin D. Roosevelt signed the first farm subsidies in 1933, he spoke of it as a temporary measure which would soon be done away with once the situation in the agricultural sector stabilized and it attained self-sufficiency. Moreover, it was seen that with time, the American farmers came to rely completely on the government subsidy system. During the last ten years, the UD government has paid out a total of $ 134 billion in direct subsidies.[59]

The Europeans argue that it is America which is resorting to protectionist measures while it is the European market which is being held responsible. Europeans hold that the EC is a major net importer of agricultural products. Roughly a fifth of the world's total agricultural and food exports go to the EC. The European community has a large trade deficit when it comes to agricultural products. In 1988, this deficit amounted to $ 27.5 billion (exports valued at $ 35.5 billion compared to imports valued at approximately 63 billion). The USA, on the other hand, boasted of a surplus of $ 18 billion.[60]

The GATT secretariat in its Audit Report in March 1992 complained that there was an increasing trend towards protectionism in America and this posed a threat to free world trade. According to figures from the OECD, American farm subsidies registered an increase from $ 3 billion to $ 36 billion from 1989 to 1990.[61] This was followed by the passing of the 1990 Farm Act which continued to aid and abett the farm sector.

A report [62] published by the delegation of the EC commission in Washington in 1991 confirmed the increase in American protectionism. The report points out particularly to the US "Omnibus Trade and Competitiveness Act of 1988" and other "Buy American" restrictions. A point to highlight at this stage is that American tariffs for a number of commodities are much higher than those in the EC. For example, while the US tariff for clothings glassware and footwear is 20-34 per cent, 20 - 38 per cent and 37.5 - 48 per cent respectively. For the EC for the same products in that order tariffs are 13-14 percent, 12 per cent and 20 per cent respectively. Another case in point is the subsidization of the aircraft industry. When the US accused the EC of oversubsidizing the Airbus, the latter retorted that it was totally justified in subsidizing its aircraft industry as the U.S. too had assisted its domestic aircraft industry through the internal military budget with subsidies working upto $ 41 billions. From these studies it is apparent that both the US and EC are taking recourse to stringent protectionist measures to guard their trade interests. US-Community trade frictions are likely to continue for quite sometime. In periods of great uncertainty - as in Eastern Central Europe and in the erstwhile Soviet Union - the EC and the USA cannot afford to fall out with one another economically and thus politically. All efforts will be made from both the sides to resolve the issues of dispute so that the Atlantic Relationship is retained and the multilateral GATT negotiations do not go over the rail.

The U.S is giving greater weightage to bilateralism and plurilateralism for the conduct of its trade relations. Multi-lateralism is gradually being relegated to the background. A very pertinent question which arises in this context is whether the coming into being of regional economic blocs like NAFTA and the use of threat of use of bilateral protectionist measures like super and special 301 will mean the turning away of the US from the GATT and the global trading system?

The economic regionalisation of the world cannot resolve the issues of dispute which confront the Uruguay Round. The decisive issues of the ongoing GATT Round can only be resolved within a global framework, not on national or regional basis. The World Trading System is becoming increasingly inter-dependent. A bilateral or plurilateral pact to resolve some trade issue is bound to have repercussions on third countries which fall outside this pact. So, the global trading system has to be seen as a whole where all negotiating parties stand at par with each other irrespective of their economic and political clout. This is of course painting a very rosy picture and even if this cannot be achieved at least, efforts can be made towards conforming to this ideal. Ofcourse, in its present form the GATT is not well suited to handle some of the most important porblems confronting a liberal world trade system and has to be effectively revitalized and resuscitated to bring it back on the rails.

Trading blocs have developed in different parts of the world in response to the growing economic and political integration of the twelve EC states and to the creation of a European Economic Area (EEA) between the EC and the seven EFTA states. These include the USA - Canada - Mexico free trade area (NAFTA), the Asia Pacific Economic Cooperation (APEC), the Southeast Asian Free Trade Area (AFTA) which the six ASEAN states intend to set up. Regionalisation should not be reduced to mere protectionism. Regional free trade agreements should be made to conform with the multilateral trade system. As the creation of trading blocs is an inevitable and irreversible process, its proliferation cannot be curbed, only efforts should be made by the GATT to see that these trading blocs conform with the qualifying conditions of Article XXIV of the GATT which is against the trading blocs adopting stringent protectionist measures against third countries.

If, of course, the GATT does not put its house in order, the attainment of a fair and equitable world trade system will remain a mere pipedream. Multilateral disciplines under the GATT will be weakened further and managed trade and managed economies will become the order of the day. Trading blocs will proliferate as such arrangements are economically attractive as they provide bargaining power in dealing with other blocs and allow trade liberalization on a selective basis. If the GATT no longer remains an effective monitoring system then the trading blocs will be left free to adopt protectionist barriers towards third countries to promote their trade interest with impunity.

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CONCLUSIONS

CONCLUSIONS

I have explored in the preceding three chapters the evolution of the Atlantic Relationship from one of amiability and goodwill in the days of yore to that of acrimony in the present times. The U.S. was directed by strategic considerations in enabling European integration to see the light of the day. Besides Western Europe being economically viable for U.S. trade and investment, it was also politically advantageous as a means of keeping communist expansionism and aggression in check. Thus it was primarily because of the U.S. putting its shoulder to the wheel that saw the common market through.

Things remained frictionless and untroubled for sometime but differences began with the American intervention in Vietnam and the oil crisis of 1973 following the Arab-Israeli conflict. The West Europeans, substantially recuperated from the aftermath of the Second World War, became more assertive as regarded their economic and political rights. The Europeans refused to kowtow with America's demand for a quid-pro-quo for all the steps it had taken to encourage European unification even though these steps would have had a detrimental and devastating effect on America's economic interests.

The coming into being of detente and the signing of the SALT-I and SALT-II treaties defused global tensions and heralded the welding of relations between the East and the

West. The threat of the Russian bear baring its claws became a thing of the past and the very raison d' etre of the Atlantic alliance - i.e. the provision of large-scale assistance by the U.S. to reconstruct the economies of countries badly affected by the war as it felt that a weak economy coupled with political instability would serve as a breeding ground for communism lost its significance.

The end of the Cold war has thus shifted the focus of the U.S. from military to economic power. As national security alliances recede (NATO) or collapse (Warsaw Pact), new economic alliances are gathering strength. The US has created the North American Free Trade Area (NAFTA) that includes Canada, the U.S. and Mexico. The EC, likewise, is moving aggressively to complete its internal market - the Europe 1992 process.

The economic compulsions of the US have been the prime cause for its gearing up against the EC for greater concessions. Earlier, the US had publicly applauded the EC at its formation - and for good reason. Europe grew into a strong political and economically; American business interests prospered the common market; and Atlantic trade relations were accented more often by harmony than by acrimony. Thus the previously patronizing attitude has given way to confrontation and a U.S. demand to the EC to be more compromising. This is because the U.S. wants to re-establish its earlier hegemony in economic competitiveness and trade which it is gradually losing with the emergence of a 'Fortress Europe' and other Asian pacific countries like Japan, China.

The prime reason for the US to get flustered regarding the rise of unfair trade practices and protectionism, has been the relative decline of the U.S. within the world economy leading to what Jagdish Bhagwati had referred to as the "diminished giant syndrome".[1] This syndrome is akin to the one experienced by Britain at the fag end of the nineteenth century, when the U.S. and Germany arrived as competitive arrivals to Britain on the world scene. Like Britain then, the U.S. now is suffering from the psychological need to be "number one"[2] and is thus harping on the twin words of "reciprocity" and "fair trade".

The increased inter-dependence of the global economy has led each country to have misgivings about its trade rival getting an unfair advantage over it. This has steadily led to the supplanting of an equitable and fair world economy by unfair trade practices and protectionism. The rise of unfair trade practices will lead to a demand for a fix quantity" rather than a "fix rule" trading regime. This is to say that tariff barriers will be replaced by non Tariff ones.

The main problem before the US is how the economic integration of Europe is going to affect its trade and investment there. The questions confronting the U.S. are the effect on its firms in Europe as a result of the integration; whether a unified Europe will pose a powerful challenge for the U.S. in world markets and whether EC-92 will be detrimental to U.S. exports. The prime question is how will a consolidated Europe shape American attitudes towards its own economic institutions and its role in shaping international policy. In my dissertation I have analysed how through hard bargaining the issues coming up between the EC and the U.S. will be resolved to an extent. This is because the U.S. has to rely on its relationship with the EC on liberal world trade based on the multilateral GATT system.

The successful dismantling of barriers to trade and commerce within the EC will have a direct effect on American exports to Europe and will indirectly affect American exports to the rest of the world. This will obviously pose a challenge to the post-war status of America as the acknowledged leader. This is the reason for the U.S. adopting a mere aggressive posture. With the emergence of an economically strong and fortified Europe, the five sectors of the U.S. economy most likely to be affected will be banking and securities, agriculture, automobiles, telecommunications and semi-conductors. Of these, the agricultural sector has proved to be the most sticky. EC agricultural subsidies remain an intractable negotiating issue. The common agricultural policy (CAP) has been criticised severely by the US and other agricultural exporting nations, especially the Cairnes Group.

Due to coercion from the U.S. side, the EC has come up with a plan called the MacSharry plan after the Commissioner for agriculture, Ray MacSharry. The prime objective of the plan is to reform the CAP and come up with a new style CAP. The US which initiated the inclusion of agriculture in the current round of the GATT talks, was vociferous in its demand of doing away with the CAP, which through its heavy subsidization was the prime cause of the US losing its markets to western Europe.

Another, reason besides the reason of erosion of its economic competitiveness that can be attributed to its belligerent stand in its own domestic compulsions and economic problems at home.

To combat the deleterious effect of a Fortress Europe the US was hoping to keep the EC divided on different issues with the aid of its steadfast ally, Britain. In the Thatcherite era, Britain was averse to a full economic, social and political union. This fully suited the US. However, with the coming into power of Mr. Major, the Eurosceptics have been pushed to the side, that is to say that they do not weild as much clout as they did before. Ofcourse, Britain has its reservations on the Maastricht Treaty which was signed by the 12 European community leaders to finalise a new constitution that would create a European union when they met in Maastricht, the Netherlands, on December 9 and 10, 1991.

Trends of "saying no to Maastricht" are being discerned in the member countries of the community, which are apprehensive over the economic, social, and political talent of the treaty. Thus popular disbelief about the future of Europe leaves efforts at Europeanisation, however compelling their socio-economic logic, suspended in an atmosphere of bewilderment and xenophobia.

The dithering on the Maastricht Tready goes very well for the U.S. which has trade and investment interests in the Common Market. If the Maastricht Treary pulls through it will have a deleterious effect on U.S. interests as it would result in a stronger political economic and social union which not only reduces tariffs and other restrictions within the group but at the same time raises tariff barriers like the Common External Tariff (CET) against outsiders.

An array of highly specific issues have arisen or are likely to arise, between the U.S. and EC. The first is to examine to what extent will the EC insist, as a condition for U.S. firms to operate freely, in a United Europe, that European firms be given the same rights as in the U.S. The U.S. has given precedence to "national treatment" over "reciprocity". While "reciprocity" means the exchange of equivalent concessions or mirror-image treatments, "national treatment" requires that "the products of the territory of any contracting party shall be accorded treatment no less favorable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale" (Art III (4) of GATT). The US has further made a distinction between merely "national treatment" and "conditional national treatment" opting for the latter rather than the former. "Conditional National Treatment" besides no-less favorable treatment regarding treatment in terms of formal laws and regulations, calls for equivalent market access as well. The Second Banking Directive promulgated by the EC has incorporated the idea of "conditional national treatment" which has thus only been put into use in the banking sector and has not been applied to other financial services directives.

Second, a Common Quota System will have to be evolved when a unified Europe comes into being and the current quota system in which national quotas vary will have to be done away with. This is because quotas against products shipped from other members of the EC are inconsistent with the principles of an integrated market. Further, not having a common quota will mean the imposition of discrepant quotas by member countries against an outsider country.

Third, the eventual harmonization of European technical standards is likely to be an important step towards an integrated European market. Technical harmonization would offer pluses and minuses for the U.S. companies. On the hand, large U.S. firms established in Europe might enjoy a competitive advantage in harmonized conditions since they are accustomed to operating on a continental scale. On the other hand, it was feared that exclusion from the EC standard-setting procedures would work to the disadvantage of U.S. companies, particularly those exporting high technology products to Europe. The US firms will benefit from a transparernt system of establishing regulations and standards which is open, full and non-discriminatory. They will also benefit from a system in which testing and certification procedures do not limit access to non EC firms. The fundamental differences in the US and EC systems of the setting of regulations and standards will have to be bridged if any breakthrough has to be achieved. This can be made possible by permitting the US to participate in the EC-standard setting process. Presently participation in standards setting is limited to US subsidiaries in the EC without a direct presence in the EC, US export interests will find it difficult to participate in or influence the process.

The fourth irritant is the issue of government procurement. The EC procurement market has been closed, not only to US supplies, but also to supplies from other member states. The US holds that it is more open in government procurement matters than the EC member states. Further even if all efforts are made to open public procurement, government purchasing agencies still tend to buy national irrespective of all rules and regulations.

Fifth is to see what will be the EC's policy regarding mergers and acquisitions, especially when the acquiring firm is non-European. In the long-run even the unificiation of the European market will promote the growth of numerous large multinational firms headquartered in Europe but with world wide markets and production facilities. This is bound to expose US multinationals to increased competition around the world. Thus there needs to be coordination of the competition policy between Brussels and Washington.

Other major concern for the American business community in the Europe 1992 programmes are the "rules of origin" and "local content" issues. Presently, there is no good firm for the negotiation of issues raised by the rules of origin and local content. Further, the internationalization of production has made it harder to determine the origin of a product. Likewise, there is no formal local content requirement for a product to obtain EC origin. All this is proving frustrating for the US which, even when local content is not formally required, does not want to take a chance and it ends up using European components.

I have discussed the three approaches to negotiations over U.S. trade with Europe. The first is a global approach which seeks to use the EC single market programme and the

GATT negotiations to achieve further progress toward opening markets world-wide by reducing barriers to trade, services and investment. The second is the nationalist approach which deals primarily with issues of particular interest to the U.S. Under this approach the US can resort to or just threaten to use bilateral and unilateral coercive measures if it wants to derive concessions from the EC. Third is the Atlantic approach which aims at an exclusive US community deal, something on the lines of the EFTA relationship. In my study I have examined the different negotiating strategies open to the US and from them I have tried to select the negotiating strategy that will best serve US economic interests in Europe. US trade negotiators feel it judicious to amalgamate the particular bilateral concerns with the Community on Europe 1992 issues with the current around of multilateral negotiations (the Uruguay round) under the GATT auspices. In pursuance of this, the US has embarked on an aggressive policy of opening up other economies both bilaterally, through the Special and Super 301 provisions of its Omnibus Trade and Competitiveness Act, 1988, and multilaterally, by insisting that the GATT broaden its scope to incorporate many areas that had been excluded from its preview thus far.

The core areas on which an agreement has to be reached at the Uruguay round include the new sector, services, the old sectors, textiles (the MFA) and agriculture, the new issues, trade related intellectual property and foreign investment measures (TRIPS and TRIMS). The OECD countries hold that the main bargain should be struck by the developing countries' offering the developed (OECD) countries concessions in the new sectors and issues (chiefly by accepting disciplines in services, TRIMS and TRIPS) and trading them for concessions in the old sectors (chiefly, by dismantling the MFA and liberalizing agriculture).[3]

The draft text released on DEcember 20, 1991 by Arthur Dunkel, the then Director-General of the GATT, to all GATT member countries - 108 sovereign nations - for agreement on a "take it or leave it" basis on or before January 13, 1992, is very much a part of the effort to restructure and revitalize international institutions to conform to the new world order which is characterized by the dominance of the developed capitalist world in general, and the United States in particular.[4] The Dunkel Draft has astutely tried to narrow the differences between the EC and the US by being more generous to the former than expected on farm subsidies, but has compensated the US adequately by being more generous to it on all other issues like TRIPS, TRIMS, GATs et. al primarily to the detriment of the developing countries.

In the GATT as it exists now, there is provision for special and differential treatment for the developing countries under Article XVIII, if the country concerned is faced with a balance of payments problem which is habitual with countries undergoing the agonizing process of economic development and growth. The provisions under Article XVIII allow the developing countries to use quota restrictions and other protective devices to contain the balance of payments problems. The Dunkel Text dilutes these provisions considerably. It has made a distinction between 'developing' and 'least developed' countries, denying certain benefits to the former, and in the process pitting the Third World countries against each other. Article XVIII has been reinterpreted in the text making it all the more difficult for the developing countries to use quotas and other protective devices. Further, by regarding GATS as an agreement different from the GATT, the text fails to extend the existing special provisions to the new agreement.

The question of regionalism has emerged recently with the moves of Europe 1992 and the US Canada Mexico Free Trade Agreement (NAFTA). These regional alignments have led to fears of fragmentation of the world economy into trading blocs in antithesis to GATT - wide multilateral free trade. To counteract the might of a "Fortress Europe", the US is giving greater advocacy to protectionism by supplanting its previously ideologically free-trade-oriented and market oriented economy by regional economic organizations like NAFTA. The NAFTA symbolizes the cutting off of the umbilical cord which attached the US to Europe and specifically to Britain. Its overall implications for the world trading system can be assessed and analysed only after the conclusion of the round of the GATT negotiations. Failure of the GATT negotiations will certainly place NAFTA at a near invincible position from where it can inflict heavy damage to the post second world war trading system based on the GATT principles which entail mechanisms like the MFN (most Favored Nation) status and GSP (Generalized System of Preferences) et. al. to neutralize protectionism. Thus whether regionalism truly constitutes a threat to multilaterialism is the question facing the world today?

A common criticism directed against the GATT is that in truth it is the General Agreement to Talk and Talk and that it has played a very marginal role in the promotion of liberal global trade. These criticisms are shallow and do not hold much water; under GATT auspices, tariff barriers of the OECD countries went down to almost negligible levels; the Tokyo Round went a long way in doing away with quite a few non tariff barriers (NTBS) and the process to eliminate them completely is still underway. The current Uruguay round of the GATT negotiations is assiduously trying to extend the GATT discipline to new sectors hitherto falling outside its patronage like TRIPS, TRIMS GATS et. al.

A point to mark is that if the institution of the GATT was irrelevant then how has the number of contracting parties since 1982 risen by 12 percent from eighty six to ninety six. Currently, eight more countries are negotiating their accession, China is negotiating its status and Russia is eagerly waiting in the wings.[5]

Further, the number of dispute settlement cases coming to the GATT has risen significantly in recent years which goes to prove the growing importance of the institution. Yet another index of the GATT's growing vitality is the growth in the number of countries, and in the value of trade covered, in the successive rounds of trade negotiations, from the earliest Geneva round in 1947 to the Tokyo Round in 1973-1979 and on the current Uruguay round (1986 -)[6].

The GATT certainly is in need of repairs to revitalize and resuscitate it to accommodate the needs of a changed world economy. And this is precisely what the Uruguay round is all about, The GATT needs to be restructured to deal effectively with contemporary issues like TRIPs, TRIMS, GATS.

However, the GATT is faced by serious challenges to the principles of multilaterialism and its corollaries. These challenges have recently arisen from several corners and taken the term of an advocacy of managed trade, aggressive multilaterialism, and regionalism. The GATT is not currently equipped to hold these forces at bay.

Trading blocs are bound to mushroom across the globe. This progress is inevitable and is the consequence of the outbreak of protectionist pressures in the early 1980s in the aftermath of the Second oil shock (1978-1979) and the subsequent world-wide recession. It was because of there forces that a group of countries from a particular region and geographically contiguous to each other thought it best to pull together to promote their mutual interest rather than engage in cut-throat competition with each other.

Moreover, the GATT itself sanctions free trade areas and customs union (which also have a common external tariff) under Article XXIV. This is to say, that the GATT and regional economic blocs should function in consonance with each other. The GATT should continue to remain the predominant adjudicating body and regional blocs should be made GATT consistent i.e. they should conform to the basic principles of multilateral global trade. It is in this way alone that a fair and equitable world order can be attained.

The democratic revolution that swept Eastern European in 1989 and 1990 will profoundly affect the Europe -1992 process. The questions being raised by U.S. watchers are to what extent will developments in Eastern Europe preoccupy EC leaders so as to delay economic integration, and to what extent will those developments propel even faster unification ? Eastern Europe is regarded as a historic opportunity for re-establishing Europe at the centre of the world economic scene. Even though trade and investment links between the East and West Europe are far smaller than U.S.-European links across the Atlantic, Brussels will be caught up with Easter Europe for the time being. From this it is apparent that the issues of concern to the U.S will be superseded by that of Eastern Europe.

In the other crisis of 1991, the dissolution of Yugoslavia - Europe displayed a growing desire to act jointly in foreign policy. The Community's members, however, disagreed on what policy to follow. Germany sympathised for historical reasons with the rebels, while Britain, France, Italy and Spain feared a precedent under which their own minorities could seek independence. If, the Community works out a common stand on foreign policy issues in similar crises in the future, it will lead to a marginalization of the leverage which the US holds in determining the way Western Europe should go. This would obviously spell disaster for the U.S. as it would lose out on the clout which it weilds in Western Europe presently.

The Soviet coup was too brief to indicate much about Europe's longer term response to similar crisis in the future. However, as long as there is a potential threat of the nuclear republics of the CIS (i.e. Russia, Ukraine, Kazakhistan and Belarus), America's defense commitment and its military presence will remain vital to Western Europe's security and to its ability to resist pressures from Moscow. However, one should not forget that with the West now pressing Yeltsin to adhere to the concepts of "reasonable sufficiency" and "defensive" military doctrine rooted by Gorbachev, there is no reason for the deployment of nuclear arsenas on European soil. Thus NATO (North Atlantic Treaty Organization) will have a lesser role to play in the post cold war world order.

America should come to terms with the truth that America's allies will increasingly seek to assert their self-identity and moral independence in international affairs often in ways that differentiate them from the US. The concept of Europe that will emerge will not be the product of an American vision but of forces within Europe itself. Yet the stakes for the U.S. are high. America's international power and influence are heavily dependent on its alliances with Western Europe as well as Japan.

However, it should not be forgotten in areas of trade and commerce, the US and EC will arrive at a compromise on the issues of dispute between them. They know that it is in the interest of the OECD countries to put together rather than engage in cut-throat competition with each other so that they can form an effective platform to obverse the might of the developing countries. The recently held G-7 meet in Tokyo in July 1993 went a long way in determining the course which would be taken by countries of the North to bridge the intra-North differences to present a consolidated North to counteract the South. After lengthy bargaining, the US, EC and other world trading powers achieved a breakthrough in world trade talks by negotiating a package of tariff cuts on a broad range of manufactured goods.

As the European Community becomes more assertive with regard to European defense issues, relations with Eastern Europe, the C.I.S. (Commonwealth of Independent States), and other important foreign policy issues, the US must grasp the linkages between the economic dimension of Europe 1992, the broader U.S.- E.C. relationship and the future Atlantic Alliance.

NOTES

1. Jagdish Bhagwati, The World Trading System at Risk, (Princeton, 1991), p. 16

2. Ibid, p. 16

3. Ibid., p. 84

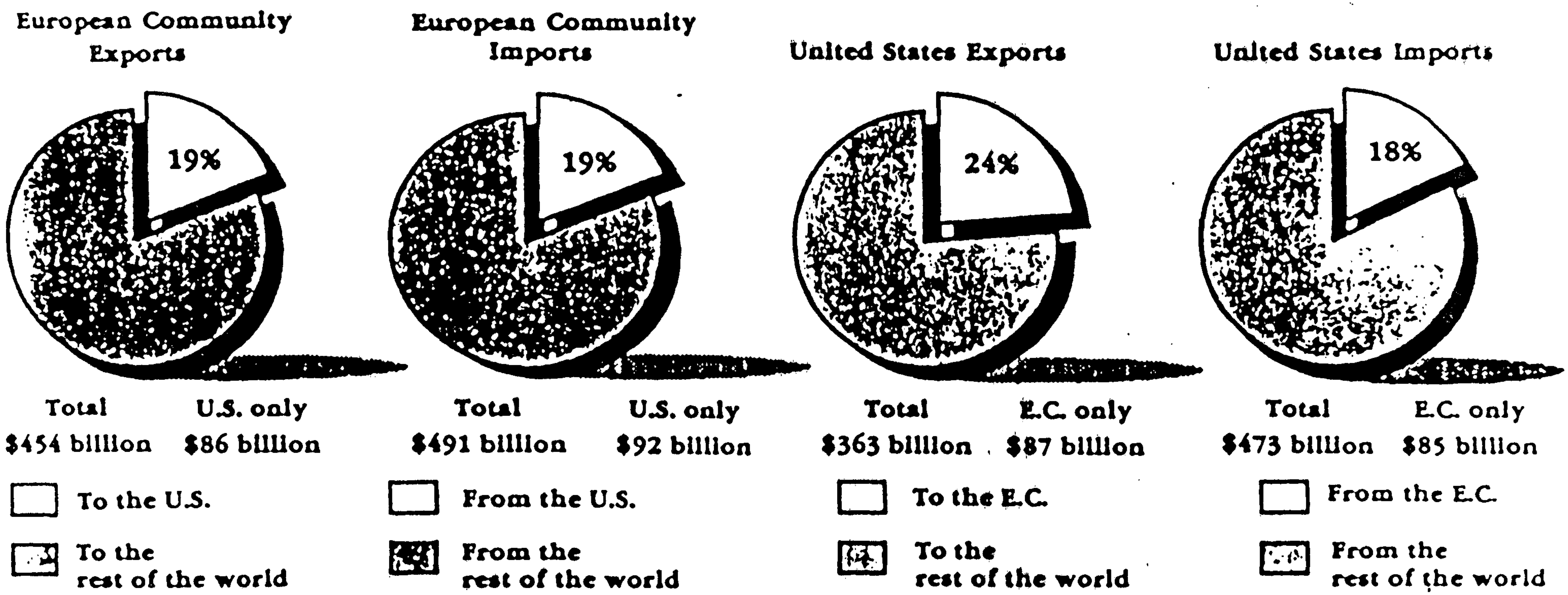
4. Abhijit Sen, "Dunkel's Design - To sell United States' interests", Frontline (Madras), Feb. 28, 1992, p. 34

5. Jagdish Bhagwati, The World Trading System at Risk, (Pinceton, 1991), pp. 5-6

6. Ibid., p.7

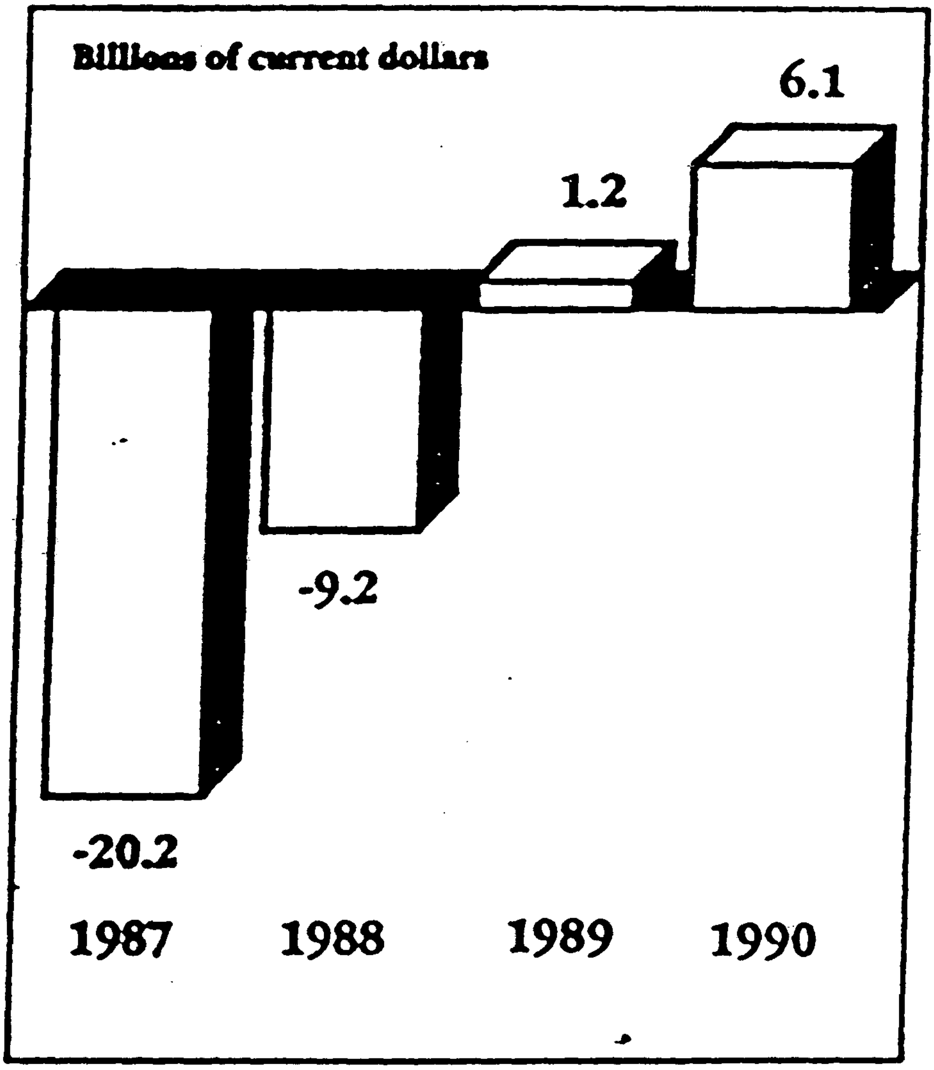
APPENDICES

TRADING PARTNERS



Source : Eurostate. Figures are U.S. dollars for 1989

U.S.-EC Trade Balance



Sources : U.S. Department of Commerce; Office of the U.S. Trade Representative

U.S. DIRECT INVESTMENT IN THE EUROPEAN COMMUNITY, 1960-1987*
(millions of dollars)

	1960	**1970**	**1980**	**1987**
U.S. direct investment in the EC	2,645	11,516	77,153	122,247
Total U.S. direct foreign investment	31,865	75,480	215,375	308,793
Percent of total	8%	15%	36%	40%

*EC-6 until 1973; EC-9 until 1981; EC-10 until 1986 ; EC-12 since 1986.

Source: Michael Callngaert, The 1992 Challenge from Europe: Development of the European Community's Internal Market (Washington, D.C.:National Planning Association, 1988).

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