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TOWARDS A SINGLE EUROPEAN MARKET : PROBLEMS, PROSPECTS AND IMPLICATIONS

Introduction

In February 1986 member-governments of the European Community (EC) formally ratified the agreement titled "Single European Act" (SEA). The agreement embodies commitments on a wide range of policy issues particularly related to the completion, by the end of 1992, of the process of creation of a free market for the exchange of goods and services throughout the 12-member Community.¹ The agreement embodies the concept of turning the EC into an internal market without frontiers by removing all existing barriers to the free movement of goods and services, citizens and capital in four years time.²

The process of implementing the project is however rendered difficult by continuing disagreements between the member states over a number of issues. Disputes over dismantling the frontiers, lessening national sovereignties, harmonizing social security policies, etc., are among the prominent ones likely to delay the process of true integration. On the other hand, many non-EC countries individually or as groups, are panicked by the prospects of Western

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1. For further details, see : Inter European Policy Group (IEPG) "*Vredeling Report*", EEC, Brussels, 1987.
 2. R. Morgan, "European Community Reform" in *The Europe Review*, World of Information, Essex, 1987, pp. 18-19.

Europe becoming what has been described as the single largest protectionist economy of the world. Developed and developing countries alike perceive their interests at stake. Irrespective of the way they react, interests of both the groups of countries are likely to be affected at different levels once the integration process is complete. The Common Agricultural Policy (CAP) of the EC has already had perilous effects on the prospects of liberalizing commodity trade, affecting the developing countries most. Reciprocity and transitional rules—core of the 1992 regulations—would on the one hand affect the non-European foreign investments in Europe, and on the other hand further distort the existing trade pattern in the world.

As far as security is concerned, disagreements in recent years between the US and its European allies of the North Atlantic Treaty Organization (NATO) on some of the issues including superpower arms reduction talks appear to have alarmed much of Western Europe. They feel to have been trampled in the Reykjavik-Geneva corridors. They are by all indications becoming increasingly reluctant to rely exclusively on US protection against any possible attack from the East. At the same time, high hopes for prosperity through the realization of complete economic integration by the end of 1992 may have intensified the urge for ensuring self-defence independent of any foreign influence. This concern is reflected in the programmes for defence collaboration included in the SEA. In this paper, the implications of the EC's Project-1992 is being reviewed with particular relevance to these controversial aspects. The paper also highlights the problems and projects of the SEA.

Eurostroika : In Quest of Closer Integration

M Briand in his famous Memorandum on the United States of Europe (1930)³ declared that "all possibility of progress towards

3. The memorandum was drawn up in 1930 by M Briand, the then Foreign Minister of France, in which he advocated the formation of a European Federal Union within the framework of the League of Nations.

economic union being strictly determined by the question of security, it is on the political plane that constructive effort should first of all be made". In the post-War era also, as Lipson correctly noted, "economic rehabilitation of Europe was unquestionably an essential condition of its political pacification, yet no substantial measure of economic recovery could be achieved so long as it remained distracted by political animosities and harassed by political anxieties"⁴.

In the aftermath of the Second World War the United States of America emerged as the formidable single largest power, both economically and politically in the world arena. Being on the other side of the Atlantic, it virtually remained physically undamaged in the war. On the other hand, European countries being at the centre of the battle ground were devastated. The US helped rehabilitate the West European economies through the implementation of Marshal Plan, and extended military protection which eventually took shape of North Atlantic Treaty Organization (NATO). The war-torn Europe losing the colonies which previously served as its primary source of resources had no alternative but to survive with generous financial help and guarantee of political security provided by the US. Subsequently, with the process of economic recovery and development, the Europeans began looking for avenues to restore their pride and power adjusting to the changes in the post-war international politico-economic order. The global trend towards multi-polarity in recent years has multiplied their urge for building more autonomous Europe. It received further impetus with the rise of Japan as global economic superpower and newly industrializing nations and a much-talked-about probable shift in the global distribution of economic wealth in favour of Asia. The recent changes in East-West relations have also contributed to the renewed impetus for integration in West Europe.

4. E. Lipson, *Europe in the 19th and 20th Centuries*, E.L.B.S. & Adam and Charters Black, London, 1982.

In this backdrop, the main concern is to jointly face the new global challenges, to combat the effects of possible adverse developments and regrow aggressively. To achieve this objective, economic power is to complement the political power, which none of them can achieve alone under the existing order of international economic and political relations. A big push is required to get themselves ahead. But how?

Answer to this big question as the weakening senior Euro-nations perceive, is to mobilize all their resources and act together to ensure that their mutual interests are charted optimally, their actions are coordinated effectively and thereby gain a strong bargaining position. Optimisation of benefits at the economic front are to be matched by parallel developments in their political clout and defence capability independent of the US. This intertwined strategy has actually been viewed as a manifestation of a strong feeling of Euro-regionalism among the West European nations leaving aside their historical, cultural and political cleavages and more significantly economic rivalry.

While the process of building Europeanism is slow, there are clear indications that the move is strong on its wheel. The move has apparently received wide popular support, particularly among the post-War generation who did not experience any major hostility between themselves. They rather share a common view of peaceful coexistence framed by factors of mutual interests.

Since February 1986 the EC headquarter in Brussels and its affiliated organs, particularly the European Parliament and the Council of Ministers got tremendously busy in formulating the shape of future Europe. It has increased immensely the importance of the European Court of Justice, in its capacity as the final arbiter of EC law for the creation of a single market in the Community. The Project-1992, it may be added, involves creating a new set of laws which will take precedence over the national laws of the Community members.⁵

5. For details, see : *The Economist*, December 17, (1988) p. 12.

By 1988, significant achievements have been made with regard to the creation of a single market at the end of 1992. In February, the EC leaders reached a compromise on farm reforms, agreed on new rules for the Euro-budget, and decided to double spending on the less developed areas. The Ministers further proceeded to agree, *inter alia* on the the eventful lifting of capital controls, opening of road haulage to competition, and granting of rights to professional people of one EC country to take jobs in another.⁶

The new Eurozeal is the result of years of efforts by the EC members to create a true common market. Significantly enough, the agreement for integration has been reached after a lapse of 20 years since signing of the Treaty of Rome which urged the signatory governments for the same in 1957. In a global context significantly different from that of fifties and subsequent decades the Europeans perceive their future more on their own terms. They want to strengthen further their combined economic power, and maintain security by themselves. Although, security is not emphasized too explicitly in the SEA, for a number of reasons, its appeal increased tremendously in recent years. Firstly, as mentioned earlier, dislike and distrust in the US security commitment to its NATO allies in Europe mounted in significant proportion in recent years. Allies find their security interests sacrificed by the US at the alter of Super Powers, summits. The Europeans were horrified when President Reagan proposed abolition of all nuclear ballistic missiles in 10 years time to Gorbachev in Reykjavik in 1986. They thought that the US President was about to remove the nuclear underpinning of their defence without prior consultation. This raised doubts about the US leadership, its reliability, and its ability to deal effectively with the Soviet Union, and its capacity to sustain policies from one administration to another or even at times, from one month to another.⁷

6. *Ibid*

7. R. E. Hunter, "Will the United States Remain a European Power?", *Survival*, May/June, 1988, p. 210.

The second source of distrust is that the US might risk a nuclear war in the belief that it could be confined to Europe. The Strategic Defence Initiative (SDI) launched by the Reagan administration in 1983 added to the suspicion over actual intentions of the US. Despite the fact that several European governments and companies are participating in the SDI research programme to gain industrial advantage, it is widely believed that the SDI is basically an American First programme.

The above two primary source of irritations led the European allies of the NATO to think about their own defence. Despite the fact that the Treaty of Rome defined European defence as lying outside the EEC competence the SEA sought to chart the way ahead for the Community and recognized the need for security cooperation. In March 1987, Mr. Jacques Dellors, the EC President proposed a special Euro-summit to discuss European security. A month later Sir Geoffrey Howe, the Foreign Secretary of the Thatcher government—the closest ally of the US in Europe—even warned in a speech that they (Europeans) need to be alert to trends in US thinking which might cause weakening of their security.

France is the only member country of the alliance which remained outside the NATO military command since De Gaulle withdrew French forces in 1966. Until recently France was least interested in defence collaboration. But in recent years, with the rise of Eurozeal renewed French interest in military cooperation with other European nations has been reflected on several occasions. France has recently welcomed the idea previously proposed by the German Chancellor Helmut Kohl to establish a joint Franco-German brigade.⁸ These two countries also increased noticeably the scale of their joint troop manoeuvres in autumn 1987, which gave rise to high hopes for the possibility of establishing a joint brigade in near future.

8. D. Buchan,, "European Defence Frights, Vacillations and Surprises" in *The Europe Review*, World of Information, Essex, 1986, p. 14.

In Europe, France has the largest amount of investments in its high-tech defence industry. It is also the single largest European exporter of defence equipments. Since 1986, France has been showing continued interests in the area of arms procurement with her neighbours. France even held a joint procurement conference with Britain, its closest arms competitor in Europe to encourage each others companies to bid for contracts. Such changes in the attitude of France, known for its independent views on matters of defence indicate that under the new environment of increasing European regionalism France would be readily encouraged in defence collaboration with member countries of the Community.

Members of the EC are thus making slow but steady progress towards closer integration. The Euro-spirit among the commoners many of whom have apparently fallen in love at first sight with the prospects of post-1992 EC is also riding high as already indicated. The project is perceived to be a long-awaited panacea for a series of ills cumulated over the years, particularly in the field of economics. The optimists argue that a way has at last been discovered that would help heal rifts and find a new European consensus leading to the desired level of integration. Sceptics are however not few and far between, as many of them bemoan the succession of conflicts among the sister countries and fear escalation where national interests cross each other's path.⁹

Problems and Prospects for Integration

Despite the fact that the Europeans now feel themselves more European than ever before, the way to 1992 is likely to be anything but a smooth sailing. European nations have long history of nurturing and promoting divergent national interests which in large measure account for the delay in effective build-up of any true European regionalism. Such differing national perspectives have

9. H. Wallace, "Future of the EC - Haltering, but Sure Progress" in *The Europe Review*, World of Information, Essex, 1988.

in the past also often caused modifications of various action-plans of substantive nature. It appears, therefore, that the implementation of the SEA will also be delayed, and perhaps modified. According to the original plan of action only four more years have to go for the intended complete integration. But disagreements on numerous issues suggest that some of them are too complex to be found early and lasting settlement.

Sources of disagreements between the member states of the EC are many. Notable among these include issues which involve individual state's special relationship/arrangement with another state, inside or outside the EC. For instance, Britain's politics and culture are tied strongly to the US and the Commonwealth, although its trade is tilted heavily towards the EC. Britain's first concern is usually to stick with the US. British commoners still probably know more about the US, and the authority at the highest level certainly attaches more inclination towards the US in the making of its foreign policy.¹⁰ The same is true, though in another perspective for bilateral relationship between France and West Germany which it is claimed, leaves Britain on the side-lines. Such special relationships most often put others at odds.

Among factors most commonly referred to as impediments to growth of advanced level of regionalism the question of national sovereignty, considered politically sensitive is very prominent. Despite long years of most successful cooperation and peaceful coexistence the debate over the extent of national sovereignty that may be surrendered at the altar of the regional interests appears to be as alive in Europe as ever. Increasing the powers of the EC institutions, particularly of the European Parliament, has raised questions with regard to national sovereignty. Britain in particular, instinctively opposes any shift in the balance of power towards the EC institut-

10. T. Christopher, "Europe's Need for Self-Confidence" in *International Affairs*, vol. 58, no. 1, The Royal Institute of International Affairs, Winter, 1981-82 London.

tions. British Prime Minister Thatcher in her speech in Belgium in September 1987 attacked the Community's Executive Committee for seeking a massive transfer of sovereignty from national capitals to Brussels. She accused the European Commission for exceeding the limits of powers allowed to it, and warned that Britain under no circumstances would sacrifice its sovereignty to the Project 1992. On the other hand, some, notably Italy, the Benelux countries and France endorse grand gestures in favour of the SEA. This particular dispute over the issue of national sovereignty vis-a-vis the European Commission with regard to its powers is very much unlikely to be resolved in the foreseeable future.

Removing border controls for creating a frontier-free Europe is another issue to which opposition is more wide-spread. Border controls are supposed to be dismantled by 31 December 1992, which is considered as essential for the free movement of goods and services between the 12 participating countries. But the idea is rejected by Thatcher, in her words, to protect British citizens from the free-flow of drugs, terrorists, and illegal immigrants. She categorically declared in September 1987 that it would not just happen. More importantly, her government is already planning to build a large customs hall at the Waterloo station in London where the channel-tunnel trains will arrive. Some other EC leaders, though not so blunt as Mrs. Thatcher is, also share at least some of her worries.

Border controls are unlikely to be dismantled as a whole. However, movement of goods and citizens could be further eased with the exception of some special cases e.g., suspected terrorists. Britain in particular, opposes the idea of free movement allegedly as terrorists (i.e., members of the Irish Republican Army) could avail the opportunity and further aggravate the domestic political situation. Strong British opposition to this particular issue is delaying the EC's proposal for the free exchange of citizens, goods and services within the Community.

However, developments in the opposite direction are also taking place, which imply that bilateral and / or regional arrangements between members will eventually lead the EC towards the desired goal of frontier-free Europe. Ten years before the inception of the EC, Belgium, Holland and Luxembourg eased border controls within their Benelux customs union. In 1985, France and West Germany joined the Benelux countries by signing in the so called Schengen agreement, which commits to ease frontier formalities for both citizens and goods. Under the Schengen plan, frontier checks between the five countries involved were to disappear by 1990. But there are still some doubts. West Germany worries about drugs coming from easy-going Holland, and France fears guns from Belgium. It is true that the five countries eased border controls to spot checks, but the idea of removing all frontier posts sound far-fetched. Experiences suggest that the 12 member states of the EC might eventually come to a uniform set of agreement on reducing border controls for the movement of their citizens and goods within the community subject to some kind of agreed checks.

Social security is another issue at the centre of disputes. Some European leaders, in particular the Mediterranean ones, are keen to see their social policies become part of the project. They want to add labour legislation and minimum social-security payments, mechanism for competition and enterprise in the Community. Spanish Prime Minister Mr. Gonzalez, whose socialist government holds the Community's presidency for the three next months, will certainly take the initiative to push social issues in the coming months. Mr. Jacques Dellors, the President of the European Commission, himself a socialist, is likely to be sympathetic to the move for ensuring social security. However, in due course, the issue may be settled comfortably as it could be beneficial to others to reduce the comparative attraction of southern countries like Greece, Portugal, and Spain to foreign investments by increasing the social security cost of Mediterranean labour.

Another thorny issue that the members of the EC must decide, is, how and whether to provide a special statute for European companies. For a long time, businessmen have been urging the creation of a formula that would allow Euro-multinationals to operate all their subsidiaries under a single body of Commercial Law. Trade unions are also eager to be covered under a standard company law as it would provide them with the opportunity to broaden and extend employees rights throughout the Community. They would obviously like the new law modeled on West German labour law, under which workers have the right to elect between one-third and one-half of the members of their companies' supervisory boards. The present socialist government in France supports the EC's proposal for such a strong company law in line with that of the West German one. But Mrs. Thatcher, considering it as utopian social engineering bluntly dismissed the idea. The dispute has already gone beyond the domain of the governments. European employers groups are fighting plans to write a new European Company Law that would give employees a voice in major corporate decisions. While the trade union leaders are lobbying against what they describe as the emergence of a businessmen's Europe. They argue that it would do nothing for the betterment of workers rights.

Disputes also exist on the issue of creating a European Central Bank and a European currency. It is a pet project of the EC to which West Germany puts strong opposition. German authority is against the idea of establishing a Eurobank as it would erode the near-imperial influence currently being exercised by the Bundesbank and Deutsche Mark.

Amongst all the obstacles, perhaps harmonization of consumer taxes is the most complicated in nature. The European Commission insists that the single market would collapse if member states continue applying different excise and value-added taxes (VAT). Because of wide diversity in taxes, prices vary surprisingly. For instance, a litre of gasoline costs \$ 0.53 in West Germany compared to \$ 0.98 in

Italy or, more noticeably, a 700 ml bottle of whisky is priced at \$ 6.3 in Italy compared to \$ 20.17 in Denmark. In other words, a bottle of whisky is taxed 36 times as heavily in Denmark as in Greece. To standardise the varying rates, the EC insists on tax harmonization. Some governments are, however, in favour of leaving the problem to the forces of market. Mrs. Thatcher argues, for example, that if sharply differing tax rates are not sustainable, market forces will inevitably solve the problem.

On this issue, France sides with Britain, but from a different perspective. It has been calculated by the government of France that it would cost her almost \$ 10 bln a year if VAT rates are made uniform. French Prime Minister Mr. Rocard is determined to fight the current Commission proposal for two uniform ranges of VAT—a 4 to 9 per cent range for basic necessities such as food and heating oil, and 14 to 20 per cent range for other products. Mr. Rocard and his government believe that VAT is the only source of revenue in the future.

In the face of a general opposition, the EC has accepted that its proposals for harmonizing VAT and excise duties as part of the Project-1992 has its limits. As it appears from the recent developments, the idea of fixing a single rate for excise duty throughout the Community is dropped from the agenda. The Commission now considers only to keep two-fold VAT rates as mentioned above. It is expected that there would be further negotiations on VAT harmonization in the year 1989. However, France's recent move might further complicate the issue. In Rhodes summit in December 1988, France backed by West Germany and Spain, proposed that harmonization of VAT be linked to an agreement on withholding tax on interest and dividends. President Mitterrand said in the summit that this was a precondition for accepting the liberalization of capital movements; otherwise, he argued, true movement of money after 1992 would become a tax avoiders's charter. It is certain that France would take this issue forward while making negotiations on VAT in the year 1989, and beyond.

The spirit of 1992 is primarily guided by the forces of economics. Despite all allegations put forward by Britain, many of its industries other than the incompetitive ones, are likely to benefit from the opportunity of free exchange of goods. The same goes true for other highly industrialized member states of the EC. While the rest, i.e., Ireland, Italy, Spain, Portugal and Greece would benefit from the extended assistance programme of the European Regional Development Fund (ERDF), and most probably by large transfers of capital investments at least for some time until the cost of labour in this group of countries goes up to a comparable level with others.

Mrs. Thatcher, the most outspoken critic of many crucial aspects, applauds elements of the Project-1992 which will deregulate industry and services. President Mitterrand of France, a long-known advocate for European integration, supports the 1992 plan mainly for economic reasons. If the plan is implemented, for instance, the French authority would be relieved of the burden of its unpoliceable frontiers. More than three quarters of the French small and medium sized companies are also optimistic about 1992. French defence industry is also likely to benefit most from the project. West Germany supports the plan, particularly for its Common Agricultural Policy (CAP), which virtually helped surviving its agricultural sector. Greece, Spain, Portugal, Italy and Ireland support the 1992 plan largely because the push is accompanied by an enormous North-South transfer of structural funds, in the form of aid for improving the infrastructure and nurturing their promising industries.

In the long run, prospective benefits of all the 12 EC member states are by all indications likely to outweigh the foregone interests. For successful implementation of the project, however, the most crucial factor is the solidarity among the EC nations. The SEA formally included a commitment to improve the economic and social cohesion of the EC, a pledge which the less developed countries of the community, particularly Republic of Ireland and the Southern

members of the Community are keen to activate in as many areas as possible. It would involve large transfers of resources from the developed to the less developed members of the Community for which the former group of countries have shown reluctance previously. But now, under the new conditions of a much larger free market, once the Project-1992 is put into effect, it would be of their interest to pull-up the less developed economies to a comparable level for obvious market reasons.

Moreover, as far as security and other international issues are concerned, the Europeans find unification and/or a joint stance essential for establishing themselves as a single unit of world power. Such a joint stance is viewed to be catalytic to stronger bargaining power at their disposal to influence events in their favour.

Global Implications : Blockading Europe

To many outsiders, Europe in the post-1992 period, looks more like a fortress. Washington worries that a new "Euro-protectionist" will emerge while Japan feels threatened by the prospects of strong retaliation from the 'born again Europe' along with a single unified market in 1992. Relatively small economies, for instance, Sweden, recently made it known that many of her industries will be hurt. Members of the larger European Free Trade Area (EFTA) which are outside the EC's Project-1992, have also voiced their concern. They feel left out of the saga while developing countries are confused by the fuss about the prospects of their commodity (agricultural) exports to the EC market in the post-1992 period. CAP has already had adverse effects on the agricultural (dairy products in particular) sector in Australia and Scandinavia. In future, the extended umbrella of CAP might seriously affect the agricultural sector of the developing countries, if the EC does not abolish farm subsidies.¹¹

11. E. Neville-Rolfe, "Common Agricultural Policy : Dealing with the Mountains and Lakes", in *The Europe Review*, World of Information, London, 1987, p. 17.

Under the new arrangements, the West European market will be flooded by cheap agricultural supplies from the Mediterranean member countries of the EC once the trade barriers are further liberalized. The EC countries produced mountains of food and agricultural surpluses in the recent years. The trend is to be continued as farm subsidy policy of the EC is continuing. There is no sign as yet that it would be discontinued, which makes it almost certain that interests of the developing countries with regard to their commodity exports will be overlooked by the EC's protectionist policy of CAP.

The whole essence of the Project-1992 lies in the principle of reciprocity and transnational rules, through which the benefits would accrue to Europeans and not to their competitors, the Eurocrats argue. If reciprocity becomes a binding principle, international trade relations will be further distorted. The spirit of free world economy, so far advocated by the western countries will now be formally discarded by its own advocates, once the principle of reciprocity (retaliation, in fact) becomes a code of practice. Reciprocity for the purpose of protecting national economic interests would involve erection of numerous trade barriers, both visible and invisible. World trade scenerio in the post-1992 period, therefore, looks gloomy, with quotas, tariffs, taxes, and many invisible barriers.

The Community may put forward valid arguments supporting such a tit for tat policy towards the blockade economies, Japan in particular. Apart from customs duties, Japan applies a number of so-called non-tariff barriers to the imports from other countries.¹² The EC countries for years, made numerous efforts to break through the Japanese great-trade-wall. But failed to retaliate effectively as until recently they acted separately. In 1982, the EC forwarded a complaint to the General Agreements on Tariffs and Trade (GATT), accusing

12. V. Gorsky, "The Common Market and Japan : Regrowping Forces" in *International Affairs*, January, 1984, Moscow. Also see, S. Sullivan, "Who's Afraid of 1992?" in the *Newsweek*, October 31, 1988, pp. 10-17.

the Japanese of failing to provide proper conditions for European exports, and importing too few finished goods. The same year, France engaged herself along in a battle with Japan over the import of videotape recorders. Imports as such were made subject to customs examination, which had dramatic effect on reduction of the same item entering the French market. Now most EC countries apply quota or statistical devices to reduce the volume of imports, particularly cars, from Japan. But Japan, following its reputation of being most flexible in its strategy, has been successful to a great extent adapting itself to the changing monetary and trade conditions. There is every possibility that the more the EC (and the US) becomes protectionist the more the Japanese would be flexible. The point is, Japan produces parts of its goods in other countries on which the EC has not imposed limitations yet. In recent years, Japan has been increasingly undertaking such venture in the EC countries availing herself of the differences in incentives offered by them. So far, Japan has been successful in manoeuvring and pitting the EC countries against one another preventing their joint action. In the post-1992 period, when the EC would hopefully take a joint policy stance and introduce the norms and standards, Japan may well adapt herself soon to the new conditions overriding the big barriers in due course.

The significant aspect of the game is that if the situation happens to be like this, it is very likely that more resources from outside the EC will be drawn into the Community. To benefit from the SEA, foreign investments are required to be based in the EC. This would obviously have adverse effects on foreign investments in the developing countries as more resources will now be diverted in to the EC, in particular by the US and Japan—the two single largest overseas investors. Now it remains to be seen how the world investment pattern will affect the developing countries in the post-1992 period.

Prospects for development in developing countries continue to remain bleak as there is no hope for improving the long-distorted commodity trade in near future. Agricultural sector in the industria-

lized market economies is heavily supported by government subsidies. Such subsidies cost an average of \$ 185 billion to consumers and tax-payers between the 1984-86 period. Out of the total Community expenditure, agricultural market support has consistently accounted for between 60 and 70 per cent. At current prices it virtually doubled from 11.3 bln to 22.2 bln ECUs (European Currency Units) between 1980 and 1986¹³. Canada and the US also spend large amount of subsidies for their farmers. Subsidy is the life-blood for agriculture particularly in the EC and North America. It keeps the sector artificially alive and economically inefficient. Agricultural sector in these countries produces massive surpluses each year—often in high demand—in many food deficit, draught and famine-affected countries. Dumping the surpluses in the international market keep commodity prices low, which directly affects the production and growth of the food and agricultural sector in the Third World countries depriving them of the benefits of free market mechanism.¹⁴

The agenda of the last world conference on tariffs and trade held in early December 1988 in Montreal was dominated by disputes between the US and 12 members of the EC over agricultural subsidies.¹⁵ The US demanded gradual but total elimination of farm subsidies by all member countries of the GATT within a fixed period of time. But the EC Ministers offered only a reduction in supports. The reason why the EC is strongly defending farm subsidies is that its elimination could inflict great injuries to 1 million farmers in the Community. The industrialized countries including the Europeans and the US agreed in Montreal on a relatively minor aspect of global agricultural policy to lower tariffs on a wide selection of tropical products notably bananas, cocoa, rattan and litchi nuts worth \$ 25 bln to \$ 30 bln a year. But they failed, mainly because of the EC's opposition, to reach any concrete decision on wholesale elimination of farm subsidies—which actually matters.

13. E. Neville-Rofle, *op. cit.*

14. For details, see : R. Lapper, "1992 Getting into Europe" in *South*, December, 1988, pp. 8-14.

15. *The New Nation*, December 7, 1988, Dhaka.

An International Monetary Fund report published during the Montreal meeting said that the European and Japanese farmers would lose most if trade in agriculture is liberalized. On the other hand farmers in the US and in most developing countries would benefit. Elimination of subsidies would boost developing country trade by some \$ 26 bln a year and save tax payers in the developed countries \$ 16 bln a year.

Nevertheless, the industrialized countries only agreed to a framework for further negotiations on bolstering free trade in service industries, in which the Third World's participation is negligible. Thus it reflects the fact that the EC will act more like a protectionist empire where any of its major interests is at stake. It is not unlikely that in future, once the SEA is made operational, the EC will emerge as the new single largest obstacle toward liberalizing the world trade. It will now have adequate armaments at its disposal not only to shield itself against any external pressure but also to exert enough pressure on others for maximising its benefits. As a result, trade disputes are likely to be enormously magnified in the post-1992 period.

The 12 nations are, however, trying hard to convince the developing countries that the Community will continue to remain as their liberal trading and development partner. The Community is to start further negotiations for renewal of the Lome Convention under which grants and soft loans are given to 66 developing countries in Africa, the Caribbean and the Pacific. But the 279 directives adopted by the EC's 17-member executive arm as measures towards integration do not actually promise any preferential treatment to imports from the developing countries. Developing countries are primarily agrarian. Lowering tariffs as agreed in Montreal on items such as bananas, rattan, cocoa, and litchi nuts will not make much difference until agricultural price support to zero option as proposed by the US is accepted.

16. *The Economist*. London, July 9, 1988, p. 6.

The protectionist image of SEA in the EC has been recently highlighted by the on-going war on farm subsidies with the US. If the EC does not accept the core of the zero option, the Congress will start drafting a new farm bill in 1989. If the dispute is not mitigated, the US will perhaps opt for an export subsidy war against the EC. Selection of Mr. Clayton Yeutter, the American trade negotiator as Mr. Bush's Agricultural Secretary indicates that the US administration is likely to take a much firmer stance against the EC on disputed trade issues. As a result, the overall trade relations between the EC and the US will be at odds, which in turn might cause serious damages to all efforts made so far to promote free trade in the world.

Conclusion

Europe has a history of disagreements between its nations. Past efforts, which failed or caused complexities in achieving the desired goal of true integration, indicated the avenues to be avoided. Despite all the current disagreements, it appears almost certain that the successful parts of the Project-1992 will do more for the coming together of the member countries than any earlier European initiative since signing the Treaty of Rome in 1957. The Europeans have learnt a lot from their mistakes in the past. Robert Schuman, a French founder of the EEC, was perhaps correct to predict in 1950 that Europe will not be made all at once or according to a single general plan. It will be built through concrete achievements which first create a *de facto* solidarity.

Slowly but steadily, the EC is paving its own way towards economic and political integration by gradually dismantling the internal barriers and overriding the external ones one after another. Speed-breakers as reviewed here, notably, the issues of sovereignty, border posts, social security, and harmonization of taxes, are not likely to stop the project. The problems are essentially matters of accommodation and readjustment of national interests in a greater

European perspective, which the EC member-states in all likelihood are able to achieve in due course.

In the meantime, the fear of a Fortress Europe appears to be genuine particularly as it relates to the countries of the Third World. Particularly disquieting are the implications of the Project in trading and financial terms. The Community certainly has its own rationale and arguments in favour of opting for measures that by all indications are likely to lead to further distortions in global international order. It appears nevertheless that there should be more objective and comprehensive appreciation of longer term implications on global output and trade from which Europe can hardly afford to be apart. The SEA may genuinely contribute to the enhancement of European political and security clout, but many of its economic implications may soon begin to backfire. For the countries of Third World the EC Project 1992 is yet another re-inforcement of the whole lot of arguments in favour of greater and more intensive economic, financial and trading cooperation among themselves. The sooner practical measures are adopted to implement intra-developing world cooperation at both regional and global levels the better is the prospect of sustaining in a growingly hostile international economic environ for them.