THE ROLE OF THE STATE IN EXTERNAL ECONOMIC RELATIONS

(Invited Comment during Debate)

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I would like to start with the observation that the role of and the need for government policies in the globalising and liberalising World are in fact not decreasing. This situation may seem paradoxical due to the fact that liberalisation, whether on a multilateral, regional or bilateral level, implies a notion of reduced need for government policy, especially in the area of foreign economic relations. This is understood because of the general striving towards international trade liberalisation, the establishment of the WTO, and a growing number of concluded economic integration agreements among various states. I will briefly address some potential problems based on this paradoxical situation.

Growing international economic cooperation will in the future - as it was in the past - be a *sine qua non* for the peaceful and secure development of all nations. The importance of fair and cooperative international trade policies for a peaceful future was well presented by a former US Assistant Secretary of State, Francis Sear. Just before the outbreak of the Second World War he stated "One of the major root causes of war today is the blocking of foreign trade. If the world is to be saved from war, **governments must resist policies of commercial isolation pressed upon them** by selfish and self-seeking pressure groups intent upon their own gain. Governments must instead adopt constructive and cooperative commercial policies such as will make peace". This warning came too late as we know. But what can we learn from this history today?

Governments today impose policies of international trade liberalisation because of their efforts within the WTO and IMF, and due to the establishment of integration blocks such as EU, NAFTE and CEFTA. Past cooperation in these areas has in fact shifted much power regarding the shaping of national foreign trade policies[1] from national governments to international organizations or to institutions of economic integration. Thus, necessary cooperation in international trade policy appears to be secure enough to make governments able, as Dr. Altmann rightly stressed, "to pursue a policy of economic growth and social welfare". Still, there are some grey areas regarding implementation in the present international framework for national foreign trade policies which may endanger future cooperative global economic development. Two examples are offered to highlight problematic areas.

The First Example

Transition countries, especially those associated with the EU, are requested to implement fast foreign trade liberalisation both towards the EU and by reducing protection towards third counties to the low level of the EU. Both are supposed to be done in a short period of a few years. The opening of national markets introduced by such economic policy measures is going to cover major parts of present imports to transitional countries. In the case of Slovenia, more than two-thirds of imports will be directly affected. The role of government in implementing economic policy measures, as we can see in the case of transitional countries, is therefore strong although it is originated by general liberalisation demands.

One eventual danger to stability and peacefully cooperation, as suggested already by the quote of Francis Sear, could be that an extension of foreign trade liberalisation, as is expected to be successfully achieved in transitional countries and soon, **took "old GATT members" around 50 years to accomplish**.

All Central and East European Countries (CEECs) in transition are both in theory and practice **small** in terms of international trade. The impact of expected fast liberalisation towards their larger partners would cause negative or perhaps not so positive as expected effects. In practice, the foreign trade policies of EU membership candidates have shown increasing instability over the last few years. First Poland, followed by the Czech and Slovak Republics, asked for exemptions to their WTO commitments - mostly in the form of increased protection through import surcharges. They were followed by Hungary, Romania and Bulgaria. In the Central European Free Trade Area (CEFTA), such exemptions are also practiced. Slovenia, for example, is considering imposing some controls over wheat imports. Similarly with the FTAs between Croatia and Slovenia, and Macedonia and Slovenia.

This instability of international trade policy in transition countries will probably increase in line with the negative effects that such policies create. This expectation is supported by figures showing the substantial decreases in Most Favoured Nation (MFN) tariff protection demanded. See Table 1 below.

Table 1 - Differences in MFN Tariffs between CEECs and the EU (1998)

	Percentage of CEEC sectors with MFN tariffs higher than:-	
	1.25 times EU MFN tariff	**1.75 times EU MFN tariff**
CEFTA founder members		
Czech Republic	28.8	6.5
Hungary	77.9	50.0
Poland	56.2	31.5
Slovak Republic	53.4	28.5
Baltic States		
Estonia	0	0
Latvia	60.3	42.5
Lithuania	11.0	9.6
Some other CEECs		
Bulgaria	0	0
Romania	60.3	32.9
Slovenia	95.6	95.9

Source: Interim Report, IIASA, IR-98-020/April 1998, p.19.

The Czech Republic has close to 29% of all its nominal tariff rates 25% or more higher than the EU; for Hungary the figure is 88%, Poland - 56%, Slovenia - 96% and Romania - 60%. If we look at the shares of all nominal tariff rates exceeding EU tariff rates by over 75%, the figures are: Hungary - 50%, Poland - 32% and Slovenia - 96%. To consider the real effects on welfare and government budget incomes, one should look at the applied tariff levels. But still, even without such evidence, changes in the level of protection will evidently have to be very large and rapid, especially compared to the experience of “old” GATT members. At present, globalisation and liberalisation are going hand in hand, but these processes do not necessarily bring about more stability and a *de facto* reduction in the use of foreign trade policy measures by governments.

The expected increase in international trade policy instability (at least in the next few years) together with its expected (probably shorter-term) negative impacts on welfare could promote the development of unwelcome political changes and a great deal of social tension. This may especially be the case in certain groups of transitional countries such as in the Former Soviet Union or even in China following its eventual admission into the WTO. Close monitoring of the negative economic and social effects stemming from fast international trade liberalisation, especially in the specific relation between small and big partners, is needed so as to secure the achievement of the positive goals of economic and political cooperation and development.

The Second Example

The second example, which shows the sources of potential future instability based on economic policy implementation, is the WTO procedure for the settlement of disputes and its application. The number of such disputes is increasing. Their pattern shows that those between similar partners - in the sense of economic and political potential - tend to be solved fast and often even before formal procedures are started. But in the case of different partners it is just the opposite. For example, the USA informally expressed its unwillingness to follow the decision of the WTO in the case of a recent trade dispute with India. Cooperative policies in international trade only mean something if they pass their real practical test.

Conclusion

Although much formal power in accepting and implementing foreign trade policy has shifted from national governments to international bodies or agreements, the speed of change and the implementation of norms remain in the hands of national governments. Governments should therefore implement only those measures that support constructive cooperation. Today, as in the past, this is the path towards welfare improvement and the consolidation of global peace.

Note

1. By foreign trade policy, we refer to the broad area and content of policy measures which are based on the modern understanding of international/foreign economic relations.