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The anticipation of the 1992 continental-wide market has already had an unexpected effect: one-third of the average 3.7% increase in economic growth of the European Community for 1988 is the result of investors anticipating the big market.[1] This is the clearest signal the business community could make to show its confidence in Europe. This is the beginning of the most extensive exercise of deregulation the European Community has experienced since its creation in the 1950s. Everybody agrees that it is an irreversible trend.

Long gone is the "benign neglect" of those on Wall Street and Pennsylvania Avenue that led the United States press to coin the sinister "Europessimism" concept of the early 1980s. Indeed, during last year, many East Coast analysts depicted Europe as a five trillion dollar economy, thus granting the EC the economic powerhouse status it deserves.[2] But awe often goes hand in hand with envy, which has resulted in the fashionable East Coast notion of "Fortress Europe."

Before killing this myth, one crucial but often forgotten issue must be clarified: there is indeed nothing more legitimate for the Community than wanting to achieve one single market, abolishing national frontiers, and letting goods, persons, services and capital circulate freely. After all, this is one of the very essential goals set out in the 1950s when the European Community was created. Some people still take the simplistic view that these endeavors will result in the setting up of a "free-trade area" in Europe. The difference between a free-trade area and the Community is

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1 *Economic Outlook and Policy Problems for 1989-1990*, COM(89)101 final (Feb. 22, 1989).

2 The European Community has forecasted a GDP of 4,330 billion ECU for 1989. EUROPEAN COMMISSION, EUROSTAT STRUCTURAL DATA (Feb. 1989).

fundamental both in philosophical and political terms. The European Community's future reaches far beyond the 1992 Internal Market concept. The latter, however important, is merely a step towards a true political union.

Quite obviously, the Internal Market concept has captured the imagination of the world. Its content and its consequences are at the center of an intensive debate. This is a direct consequence of the dawning conviction that the Internal Market program is now unstoppable and will change the face of both the Community and the world economy.

There is widespread anxiety that the Community might erect a protective wall around its Internal Market and turn its back on the liberal world economic system. The nightmare prospect of a "Fortress Europe" has repeatedly made the headlines. These anxieties are paradoxically accompanied by fears inside the Community that the breaking down of internal barriers might operate above all to the advantage of foreign companies who sell within the Community market, and thus providing our partners with gratuitous benefits. Both fears are without foundation. The achievement of the Internal Market will be of economic benefit not only to Community citizens, but also to the world economy as a whole. The related external policy measures also will represent a coherent approach based on a sober analysis of Community interests and respect for those of our partners.

The impact on the world economy of the Internal Market will depend partly on the predictable economic consequences of the replacement of twelve separate markets by one, and partly on the content of the accompanying external policy measures. Both Community producers and foreign exporters will benefit directly from operating in an Internal Market with a generally uniform set of regulations, standards, testing and certification procedures. They will no longer have to face twelve divergent sets of requirements, nor intra-Community border controls. All will gain from lower costs and from the exploitation of the economies of scale offered by a market of 320 million consumers.

The now widely known Cecchini report[3] has estimated the macroeconomic consequences which will follow the completion of the internal market, even in the absence of additional external policy measures. These estimates suggest that intra-Community trade should increase by some 10% in the medium term. The improved competitiveness of Community producers will also stimulate Community exports to the rest of

[3] P. CECCHINI, ET. AL., RESEARCH ON THE COST OF NON-EUROPE, (ISBN 92-825-8605-7). The Cecchini Report is named after the former Deputy Director General of Industrial Affairs of the European Commission, Paolo Cecchini, who coordinated this exhaustive survey.

the world by 10%. Imports into the Community, which will accompany its increased growth, will also rise.

In a word, the combination of the increased dynamism, which is inherent in the creation of the Internal Market, and the exploitation of the opportunities it will provide to pursue growth-orientated macroeconomic policies will allow the Community to provide a powerful new stimulus to the world economy, many of whose problems stem precisely from the sluggish growth it has experienced in recent years.

The total impact of the Internal Market on our partners will also be determined in part by the content given to its external policy dimension. This policy is not new. The Treaty of Rome, which provided for the removal of all customs barriers between Member states, also set up a common external policy, in particular with respect to the Common Market it created. This gave the Community an external identity to match its intensifying internal integration. The 1992 program simply extends and deepens this Internal Market philosophy and introduces the mechanisms to achieve it. It is therefore natural that they be accompanied by a corresponding extension and completion of external policy. This means the development of Community rules for access to the market for third country producers in all those areas in which the Internal Market is achieved. In many cases, this will mean the replacement of existing Member States' policy measures by community action.

The need to extend the scope of Community external policy action in this way has been misunderstood by some as an intention to raise the level of protection. To the contrary, its content will be closely related to the objectives it is intended to achieve. The European Council, during the so-called European Summit, has expressed a general policy line as follows:

> The Internal Market should not close in on itself. In conformity with the provisions of GATT, the Community should be open to third countries, and must negotiate with these countries where necessary to ensure access to their markets for Community exports. It will seek to preserve the balance of advantages accorded, while respecting the identity of the Internal Market of the Community.[4]

This important statement underlines the Community's commitment to the liberal multilateral trading system. This commitment reflects the reality that the Community is the worlds largest trading partner and that external trade plays a much larger proportional role in its economy than in those of other major trading partners.

The logic of the Internal Market assumes that by lowering the costs

[4] Meeting of the European Council, in Hannover, West Germany (June 27-28, 1988).

and increasing the home market base of European companies, these companies will be in a stronger competitive position vis-à-vis third-country producers, both in Europe and in international markets. The full benefits of this increased competitiveness can only be reaped if it can be translated into increased world trade on the basis of comparative advantage. This is an argument for reinforcing the existing liberal, multilateral trade system by seeking the mutually advantageous opening of world markets, not for triggering a protectionist spiral which could only reduce market opportunities for competitive community producers. In other words, "Fortress Europe" does not make sense. The Community's commitment to liberalization is not rhetoric. It is the simple reflection of our interests, which coincide with those of our partners.

Moreover, building such a fortress would be suicidal. With over 20% or more of world trade (the United States accounts for 14% and Japan for 9%),[5] the EC is by far the most open trading partner in the world. We have nothing to gain through protections. Three divergent classes of external policy measures in connection with the Internal Market can be distinguished. Some are indispensable if internal barriers are to be removed, many are covered by the existing international obligations of the Community, and others represent virgin territory with respect both to Community policy and to international rules.

The best example of external policy measures which are indispensable are the gaps which still exist in the common commercial policy itself. These gaps are a result of the wide divergences between the import regimes applicable in individual Member States. One area of concern is the quantitative restrictions placed on some imports from Japan and Eastern Europe. Another area of concern is the limits fixed for individual Member States within the Community's quotas under bilateral textile agreements, and for sensitive products in its Generalized System of Preferences for developing countries. Such measures will make no sense when boarder posts disappear between our Member States, because they will no longer be enforceable. After 1992, the Community's rules on imports from third countries will need to be fully unified. In many cases, the national restrictions will simply be eliminated. This may require Community assistance to restructure certain sensitive sectors.

By the end of 1992, however, there will still be a limited hard core of products where particular economic difficulties in some Member States may require the replacement of national protective measures by appropriate measures at the Community level. Any such measures would have

[5] Trade figures supplied by EUROSTAT, the statistical office of the European Community. The figures represent levels of trade for 1987.

to be in full conformity with the Community's obligations under the General Agreement on Tariffs and Trade ("GATT"). With respect to this class of measures, the final effect of an extension of Community external policy is unambiguous. The Community market as a whole will have a lower level of protection than it does now.

A second class of measures concerns those many areas in which new external action will be fully subject to the Community's existing obligations, whether these be multilateral — such as GATT and the Organization for Economic Cooperation and Development ("OECD") or bilateral such as the European Free Trade Association ("EFTA"), Loma, and the Mediterranean Countries. These agreements are already based largely on procedures directed towards the progressive liberalization of world markets. Thus, the extension of the scope of Community action within them will result, once again, in a worldwide decrease, not an increase, of protection.

Finally, a number of measures will break new ground by extending Community external action to fields not covered by international rules. Here the same logic applies. The same objective of worldwide market opening needs to be pursued.

How can this objective be achieved? GATT experience shows that in multilateral negotiations designed to liberalize access to markets, progress is made by all participants exchanging "concessions" in such a way that a mutually advantageous balance of benefits for all parties emerges from the negotiations. This technique is often described as being based on a concept of "overall reciprocity." In this sense, reciprocity is an accepted and central element of trade policy. As a recent report by the Congressional Research Service on the 1992 program pointed out: "Reciprocity has been a central concept of U.S. trade policy since the adoption of unconditional most-favored-nation (MFN) treatment in 1923."[6]

In passing, it is important to note that overall reciprocity implies neither that all countries make the same concessions, nor that all countries are required to contribute equivalent concessions. The level of contribution possible may depend on the level of development of a country. There is no question of the Community demanding concessions from its developing country partners which they are unable to make.

In many policy areas, the multilateral pursuit of liberalization has been underway for decades. As already noted, the international obligations which the Community has entered into as part of this process (*e.g.*,

[6] *See* K. DAM, THE GATT: LAW AND INTERNATIONAL ECONOMIC ORGANIZATION 59 (1970), O. LONG, LAW AND ITS LIMITATIONS IN THE GATT MULTILATERAL TRADE SYSTEM 10-11 (1985).

GATT and OECD) will continue to be fully respected. In those areas not yet covered by existing rules, such as much of the services trade, it will be the Community's aim to achieve a further liberalization through the negotiation of new international agreements. The Uruguay Round negotiations provide a major opportunity to do this. When they are successfully concluded, the commitments to which the Community subscribes will be fully reflected in its external regime.

Until such agreements have entered into force, it would be foolish for the Community to extend the benefits of its own liberalization process to third countries unilaterally. At that time, it would be reasonable to expect comparable liberalization measures from these countries. On the other hand, these benefits will be available to our partners where a mutual balance of advantages, in the spirit of GATT, already exists or can be achieved through negotiations. This, of course, implies the maintenance of conditions on access to the Community market. These conditions will be maintained, however, only where they are not contrary to our obligations, and pending the achievement of a satisfactory degree of overall reciprocity as part of a multilateral or bilateral negotiating process. This approach does not imply that our trading partners should adopt legislation identical to our own; that would be quite unreasonable. Neither are we seeking "sectoral reciprocity" in the sense of balancing trade in each sector between the Community and each of its partners. We have successfully prevented the United States from introducing this sectoral reciprocity into its law.

The Community's message, I hope, is clear: it is proposing to third countries a partnership designed to ensure that the liberalization, which is inherent to the achievement of the Single Market, echoes around the world. Far from building a fortress, the Community is taking the lead in proposing a new, cooperative effort to revitalize the world economy.

The outside world is right to recognize the importance of this program to complete the Internal Market and to examine its possible impact on third countries. The fact that this interest often leads to anxiety and concern highlights the need to explain carefully what is involved. The Community's decision-making process is already exceptionally transparent and unhurried, but as the pace of legislative change quickens in the approach to 1992, there may be a need for more intensified use of existing channels of consultation with third countries when individual proposals could have a direct bearing on international trade. The Community has always been and will remain open to requests for such consultation.

But such a readiness should not be misread: the Single European

Act,[7] which updated the EC treaties of the end of the 1950s, defines the ingredients of the Internal Market. This Act is neither a scrap of paper nor a declaration of good intent. The Single European Act has a clear constitutional value. It is Community law endorsed by all Parliaments and Governments of the Twelve. Thus, the Single Act is not negotiable, and is here to stay.

7 *Single European Act*, 30 O.J. EUR. COMM. (No. L 169) 1 (1987).