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THE ECONOMIC SIGNIFICANCE OF REGIONAL PACTS

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PARALLEL with the decay of the proud edifice of world economy built on capitalist principles, there have arisen and are arising regionally limited alliances of states in Europe and America. They arise in Europe frequently on the basis and under the compulsion of the new state outlines formed by the peace treaties, outlines the creation of which was an expression of the wish to make the two conceptions, state and nation, identical to the widest possible degree. The political identification of both these conceptions has, however, often brought to a head consequences whose economic nature could not be seen in advance. A special form of the effect of these consequences has been the creation of alliances as, in the grouping into regional pacts, we regard them as the characteristic symptom of the later post-War period.

All existing regional pacts have in common one economic feature—and this alone forms the object of my remarks, namely: a more or less far-reaching evasion of the most-favoured-nation clause, in the sense that the regionally allied states grant each other preferential treatment which they deny to third parties.

I need not deal further with the importance in principle of the break-down of the most-favoured-nation clause. Neither can I go into further details of the history and the contents of the existing regional pacts because there is not enough time. I will content myself by throwing more light on the economic effect of the existing pacts by means of a few figures, in order to make clear to you, through the analysis, their economic significance. Unfortunately, I must limit myself to data up to the end of 1932, principally taken from the statements of the publications of the League of Nations Secretariat in Geneva, as those of last year, 1933, are not yet available. In spite of that, I believe that a few not unimportant conclusions can be drawn from these figures.

The pact of Ouchy between Belgium, Holland, and Luxembourg, whereby these countries bound themselves to the well-known mutual customs reductions, which they have so far not been able to put into effect, shows the following economic basis. The percentages of

Holland's imports from Belgium in relation to the total imports were: 1930, 10.6; 1931, 10.4; 1932, 10.1. The corresponding export percentages were: 11, 12, and 13.9. Against this, it must be pointed out that the extent of the export of goods from Holland to England in 1931 and 1932, 18.9 and 24.5 per cent. respectively, as well as to Germany, 19.5 and 22.9 per cent. respectively, is considerably larger than to Belgium. Also the relations of Belgium with France, 12.6 and 19.7 per cent. respectively, England, 15.5 and 21.2 per cent. respectively, and Germany, 10.5 and 12 per cent. respectively, are considerably more extensive than those with Holland. According to these figures a practical result of the agreement of Ouchy can hardly be expected. On the contrary, both states must be eager to respect the interest of their customers as much as possible, and consequently the development of their mutual relations must take the second place.

The agreement of the Scandinavian states, whereby the most-favoured-nation clause, in agreements with other countries, is not applied in the mutual relations of Denmark, Norway, and Sweden, has only sanctioned a state of affairs already in existence. Of the total value of the mutual imports and exports, the figures were as follows:

Trade		1931		1932	
Between	and	Imports	Exports	Imports	Exports
		% of total imports	% of total exports	% of total imports	% of total exports
Denmark	Norway	1.5	5.1	2.1	2.8
	Sweden	6.2	6.4	5.4	5.7
Norway	Denmark	8.1	4.0	4.9	4.4
	Sweden	10.3	6.5	8.4	6.4
Sweden	Denmark	6.1	7.2	6.3	6.4
	Norway	2.8	6.4	3.3	6.4

This trade is only moderate in comparison with what these states do with other countries since, for example, Denmark sends 61-64 per cent. of the total value of its exports to England, and imports from Germany 26-33.5 per cent. of its imports. Norway sends to England 25-27.3 per cent. of its whole exports and imports 21-23 per cent. from Germany. Sweden exports to England 25.6-26.7 per cent. and imports from Germany 29.3-33 per cent. of its imports. It is understandable that, for the Scandinavian countries economically, the attitude of the countries named must be most decisive, and that the extension of their mutual relations within the framework of the

regional pact must be regulated principally according to this point of view.

Within the framework of the Baltic pact the mutual exchange of commodities is limited to 0.1-5.2 per cent. of the value of the whole trade, whereas, for example, the export to England from all three countries of the pact, Esthonia, Lithuania, and Latvia amounts to 24-48.7 per cent. of their total exports, the imports from Germany alone being 24-47.1 per cent. of total imports. What, therefore, has been said of the Scandinavian countries as to the economic importance of their agreement is also true of these countries.

The circumstances are very similar in the regional pact of the Iberian Peninsula, i.e. in the direct trade relations between Spain and Portugal, as well as in the relations of these countries with their former colonies and allied states (Argentina, Brazil, Chile, Cuba, Mexico, Colombia, Uruguay, and Venezuela). The exports of Spain to the above-named countries amounted in 1932 to 12.8 per cent., the imports from there to 12 per cent. of the total value. In 1932 the corresponding values were 15.3 and 12.5 per cent. respectively. On the other hand, of the whole Spanish exports, 23.9 per cent. went to England, 19.8 per cent. to France, 8.8 per cent. to Germany and 7.5 per cent. to the U.S.A., making a total of 60 per cent. The import figures were as follows: U.S.A. 17.1 per cent.; England, 12.5 per cent.; Germany, 12.5 per cent.; France, 7.6 per cent.; making a total of 49.7 per cent.

We find that Portugal has completely analogous relations. Portugal's exports to Spain, Brazil, and all colonies amounted to 16.5 per cent. in 1932, the imports from there to 24.8 per cent. of the total value; against that the imports from U.S.A., England, France, and Germany totalled 57.8 per cent. and exports 52.4 per cent.

The regional pact of the States of Central America, Nicaragua, Honduras, Costa Rica, and San Salvador, which secures to all the members complete freedom of movement for all their own products in the whole area of the bloc, thus constituting a sort of customs union, also shows that from an economic standpoint this may be regarded as quite harmless. The mutual relations are of so slight a nature that their value generally falls below 1 per cent. of the total value of exports or imports, and is often only included under the all-embracing term of 'other countries'. On the other hand, the exchange of goods with countries standing outside the regional pact is incomparably more valuable. For example, Guatemala imports 54.9 per cent. of its total from the U.S.A. and exports to there 35.4 per cent. The corresponding figures of trade with Germany are 33.1 and 12.8 per cent.

respectively. Costa Rica exports 60.3 per cent. of the total value of its exports to England and imports 51.8 per cent. from the U.S.A. San Salvador exports to the U.S.A. 23.5 per cent. and imports 49 per cent. from there. Honduras exports to the U.S.A. 71.6 per cent., and imports from there 72.4 per cent. of the total value of its foreign trade. All these figures refer to 1932.

All the regional pacts cited have been concluded between sovereign states which, in this way, wish to secure for one another mutual economic advantages. We see, however, that the monetary value of the expected advantages is comparatively small; that often, in comparison with the value of the exchange of goods with third parties, it hardly comes into consideration, and, consequently, from the point of view of world economic conditions, there can hardly be attributed to these pacts that importance which is frequently given them. If we go into the causes of this phenomenon, we find that all the pacts quoted here regionally bind such states as possess a similar economic structure, and thus very little mutual exchange. As a result of the similarity of their production they have to find for their export third-party countries more capable of absorbing their products than the member states of the regional alliances. The maintenance of trading relations with these third-party states is obviously of much greater importance to all countries allied by regional pacts than the trade amongst themselves. It is only when states with complementary economic structures combine to separate themselves from third-party states that regional pacts of this nature gain a real importance in world trade and can exercise a decisive influence on it.

The most convincing example of this is seen in the Ottawa Agreement of August 1932 between the countries belonging to the British Empire. So much has been written about this by specially qualified experts at this conference that it is unnecessary to add further details. I would merely say that within the agreement, which embraces eight countries and over a hundred colonial administrations, the most-favoured-nation clause is NOT applied, that is to say, the privileges which members of the Empire mutually concede to one another cannot be claimed by external countries on the ground of the most-favoured-nation clause. This agreement thus represents a regional bloc of enormous magnitude whose importance in world trade may become still greater.

The agreement of Italy with Austria and Hungary, although obviously of less importance than that of Ottawa as regards world trade, appears to be of vital importance in the problem of the regula-

tion of central-European trade relations. In this case, states which can frequently supplement each other's production are brought into combination. Preferential treatment, which they grant each other, can most effectively evade the most-favoured-nation clause in relation to a third party. By quotas, by the manipulation of tariffs, by alliances of related industries, and by ordinances as to clearing and foreign currencies, which, as far as the contents of the agreement are known, are to be applied, the effectiveness of preferential treatment can be considerably increased. This regional trade boundary of the three states may become an insuperable barrier across the road of the former markets of third-party states and for this reason alone this regional agreement could acquire a world economic importance reaching far above that of alliances concluded hitherto between states of similar economic structure.

The period since the coming into force of the Italy-Austria-Hungary pact—June 1, 1934—is still too short to provide any definite figures as to its effects, but this pact is of very special importance.

The bloc of the Little Entente of February 16, 1933, constitutes a regional pact of a special kind. The bloc includes Yugoslavia, Rumania, and Czechoslovakia. Its economic significance is just emerging. The guiding principles are laid down by the decisions of the permanent council of the Little Entente of June 1, 1933, in Prague. The pact of the Little Entente has replaced the agreements which have existed between Rumania and Czechoslovakia since April 23, 1921, between Rumania and Yugoslavia since June 7, 1921, and between Czechoslovakia and Yugoslavia since August 31, 1922. They were prolonged by the convention of all three states on May 21, 1929, for the purpose of common action in questions of a political nature. The new pact provides for a complete co-ordination of the general policy of the three allied states, thereby forming a greater international unit, which, however, other states may join. According to Article 6 of the pact, the unanimous agreement of the council of the Little Entente is in future necessary for each and every political agreement of the members of the pact, as also for every economic agreement which might involve important future political consequences. Article 7 prescribes that there shall be set up an economic council of the Little Entente for the purpose of progressive co-ordination of the economic interests of the three states, whether it is with regard to their mutual relations or with reference to third-party states.

The pact of the Little Entente is not at all exclusive. It provides from the outset for the possibility of other states joining and further

also permits each member to conclude independent trade agreements with third-party states, in so far as these are not likely to involve important political consequences. According to the interpretation given by Dr. Beneš to this article, the conclusion of a customs union, or an event of similar gravity, would be regarded as an act of this nature. These ordinances alleviate the regional limitation of the Little Entente to a very great degree, but, on the other hand, they do not take away in any way from the pact the 'bloc' character of the regional limitation.

The freedom to conclude agreements independently has hitherto been exhaustively exploited by every single partner to the pact. Yugoslavia, since the conclusion of this pact, has made a trade agreement with Hungary on May 1, 1933; a preferential treaty with France on May 10, 1933; a compensation agreement with Greece in July 1933; a trade agreement with Austria in August 1933; a trade agreement with Germany on May 1, 1934; &c. It is really superfluous to quote in the same way the independent conclusion of agreements by Rumania and Czechoslovakia in the same period. The actual complete independence of the separate states of the Little Entente should be sufficiently proved by the examples already quoted. These independent agreements are always bilateral, often also preferential, and in some cases they have even been built up on quotas.

The pact of the Little Entente combines two agrarian states: Yugoslavia and Rumania with an industrial-agrarian state, Czechoslovakia, and thereby creates an economic union within which the branches of production are frequently complementary. Up to the conclusion of the agreement the Entente countries had an exchange of commodities of considerable extent.

In the following table we see the percentages of the total exports and imports of the various states in their trade with one another:

	Imports					Exports				
	1928	1929	1930	1931	1932	1928	1929	1930	1931	1932
Between <i>Czechoslovakia</i> and <i>Yugoslavia</i> and <i>Rumania</i>	9.0 ..	5.4 6.2	8.2 7.0	15.5 7.0	13.2 7.0	17.9 13.6	17.5 14.9	17.6 12.2	18.2 12.0	16.0 2.1
Between <i>Rumania</i> and <i>Czechoslovakia</i> and <i>Yugoslavia</i>	4.1 1.2	3.8 12.0	3.4 3.0	2.6 1.9	4.1 3.1	2.4 2.7	2.8 2.4	3.6 3.2	4.8 1.6	4.1 1.2
Between <i>Yugoslavia</i> and <i>Czechoslovakia</i> and <i>Rumania</i>	17.9 2.6	17.5 2.4	17.6 3.2	18.2 1.6	15.6 3.0	9.0 0.3	5.4 0.5	8.2 0.5	15.5 0.3	13.1 0.4

As can be seen, the extent of the exchange of commodities between the two agrarian members of the Little Entente is quite unimportant, which is not to be wondered at when one considers the similarity of their economic structure, but this similarity is not absolute. Whereas, for example, Rumania is deeply interested in the export of barley (in 1931 to the value of 2.2 milliard Lei, i.e. 11.8 per cent. of the total exports), and of petroleum derivatives (6.8 milliard Lei, i.e. 31.9 per cent. of the total exports), Yugoslavia exports considerable quantities of fruit and industrial plants (in 1932 to the value of 482 milliard Din, i.e. 15.7 per cent. of the total exports).

The ties with Czechoslovakia are considerable and permanently to her own advantage, as it delivers the finished articles of its industries to the agrarian states in exchange for their agricultural products. It should not, at the same time, be overlooked that the economic-social potential of the export of factory products is considerably more effective than the potential of the agrarian production,¹ so that the economic effect of the pact of the Little Entente seems to be particularly advantageous to Czechoslovakia. The efforts of the participants are now aimed at co-ordinating, so far as possible, their mutual production. Mutual preferential treatment is provided for, but it is not yet decided how far the most-favoured-nation clause may be departed from. For certain articles quotas are provided for. Here the aim has been to balance the value of the inter-exchange of commodities in order to eliminate as far as possible the debit balance which the agrarian states have hitherto had in relation to Czechoslovakia. Such a proceeding must eventually lead to a release of great quantities of products which have up to now been bound up in the mutual exchange and for which new markets will now have to be sought and found.

On the other hand, it is open to over-industrialized Czechoslovakia to transfer many of her closed-down industries to the Balkan countries, poor in capital, and to produce, within the scope of these countries' own requirements, articles hitherto purchased from Germany, Italy, or elsewhere.

The necessity will arise of making special agreements between the two agrarian states in order to cut out the mutual competition in the basin of the Mediterranean and in central Europe, for example, with reference to maize, timber, pigs, &c. This may be done by sharing the markets, or by cartels which would regulate the whole production and sales.

One factor deserves special mention. The Little Entente has no

¹ See M. Manoilescu, *Théorie du Protectionisme et de l'échange international*. Paris, 1927.

intentions of autarchy. It cannot have any, because in spite of its area (685,131 sq. kilometres) and its considerable population (47,774,000 inhabitants) neither the surplus of their agricultural nor of their industrial production can be consumed within their boundaries. The following figures prove this as regards the agricultural products:

<i>Annual export surplus : 1930-3 average</i>				<i>Annual import requirements of Czechoslovakia: 1930-3 average</i>
	<i>Yugoslavia</i>	<i>Rumania</i>	<i>Total</i>	
Wheat (dz.) . .	2,379,000	5,048,000	7,427,000	4,565,000
Maize (dz.) . .	3,032,000	13,157,000	16,189,000	4,214,000
Barley (dz.) . .	16,000	10,069,000	10,085,090	1,245,000
Cattle (head) . .	98,000	85,650	185,767	37,198
Pigs (head) . .	263,381	182,166	445,547	287,132

Czechoslovakia's demand for agricultural imports becomes less and less. In 1933 no wheat imports were necessary, the imports of cattle fell to 759 animals, of pigs to 136,000. Yugoslavia and Rumania are consequently still dependent on the export of their agricultural surplus to other countries, i.e. not only beyond the limits of the Little Entente, but also beyond the borders of the succession states of the Austro-Hungarian Monarchy, and beyond the limits of the plan fixed at one time by M. Tardieu. They need as markets, in addition to Czechoslovakia and Austria, Italy, Germany, and Switzerland.

In these countries both Yugoslavia and Rumania must endeavour to sell their agrarian products at prices which can bring moderate profits again to their agriculture. This is naturally the real aim of all trade alliances, especially in so far as they aim at the reconstruction of central Europe. It is as true of the sale of agricultural as of industrial production. The efforts of the agrarian states named have so far shown no success worth mentioning. The prices of their agricultural products continue to fall still further; the purchasing power of their population cannot increase; they are getting poorer and poorer.

And yet industrial states ought to consider that they can make up for losses of markets in all parts of the extra-European world to a certain extent only in the intermediate territories of Europe. To achieve this, a raising of the purchasing power of the population of these small peasant states is necessary, that is to say, of the selling possibilities of their agricultural products at corresponding prices.

One should be quite clear about the fact that if these states could

sell their wheat, maize, &c., at German, Italian, or Czechoslovakian home prices, it would increase their national income by 2-2.5 milliard Swiss francs, which would mean an increase in their consumption capacity to the same extent. The sale of eastern European products in western countries at the latter's home prices, that is to say, with a 100 per cent. preference of the import duty, is by no means impossible.

No danger of any kind would thereby be caused to the hard-won price-level of agriculture in the western countries, because the imports of the duty-free agricultural products of the eastern countries could come on the open markets only through the existing marketing and import boards, which could always keep up the price-level in order to prevent their own agricultural interests from being threatened.

Only thorough preferential treatment can produce that economic improvement in the countries enjoying it, and ought to be striven after for these countries in the same way as for the exporting industrial countries. As it would, however, take us too far to develop this idea further, I will merely mention that the eastern agrarian countries have in the meantime recognized that their sales in the West will go on decreasing, and that they will consequently be forced to look for new markets in the basin of the Mediterranean. There are possibilities for this to a surprisingly extensive degree, and the Little Entente intends to develop them systematically. To the extent that this cannot be done within the framework of the alliance, it will be done in connexion with the Balkan Pact (February 1934, in Athens).

The bloc bound by this pact includes Yugoslavia, Rumania, Greece, and Turkey, altogether about 1.5 million sq. kilometres and 53 million inhabitants. If Albania and Bulgaria join them, its area would be increased up to 1.6 million sq. kilometres, and its population to 60 millions.

This huge territory has, at the present time, very few economic ties within itself. Yugoslavia and Turkey have a somewhat more extensive exchange of goods with Greece; the other states can hardly point to any turnover worth mentioning. It is a moot point to what extent these conditions will permit of modification and change in states with such a similar economic structure. But this problem is really not so important as it seems. What is more important is the possibility of being able to regulate the relation to third-party states on the basis of the pact. The decisions taken hitherto by the Balkan conferences, at which representatives of all Balkan states took part (1930 in Athens, 1931 in Constantinople, 1932 in Bucharest, 1933 in Salonica), enable us to draw valuable conclusions in this

respect. Above all things, the decisions of the conferences adopted the slogan: 'The Balkans for the Balkan peoples', and this is meant both politically and economically. A preferential treatment of all export articles within the Balkans is being striven after by the application of a special 'Balkan Clause' and by the fixing of quotas.

The policy towards third-party states is as follows:

'The signatory states will direct their efforts in their commercial policy towards the extra-Balkan states to the most efficient protection and the defence of export interests on foreign markets with a view to assuring the best possible sale of the principal products which interest Balkan peoples.'

It is clear that the carrying out of such guiding principles will imbue the Balkan pact with a special economic importance. If especially the western countries throttled still further the export of products of the south-eastern countries, the states allied in the Balkan pact would be forced to change the direction of their exports, and would have to seek out and win the hitherto neglected markets of the East, so near to them, as well as of the whole Mediterranean basin. Efforts in this direction will have all the quicker success, the sooner the Balkan states understand how to carry out a systematic division of the economic area, according to the principles of the division of labour and zoning of markets.

Should such aims materialize into fact, we must be prepared for their being involved in cultural and social as well as in economic consequences. We must not forget that the division of the Roman Empire into a western and eastern territory was also the consequence of economic and cultural differentiations and that a similar process can take place in our own day, brought about by circumstances such as have been created by the Balkan pact.