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COMPETITION IN THE EUROPEAN INTERNAL MARKET

An Introduction

Claude d'ASPREMONT, Alexis JACQUEMIN
and Jean-Jaskold GABSZEWICZ

Université Catholique de Louvain, 1348 Louvain-la-Neuve, Belgium

Since the Treaty of Rome was signed, the European Community has been building its common market. The enforcement of the Commission's White Paper entitled 'Completing the Internal Market' and proposing the removal of all technical, physical and fiscal internal market barriers, by 1992, represents a major step in that direction.

However, it must be clear that whatever is its degree of integration, the Common Market is and will be characterized by a type of market competition that is quite different from the one assumed in traditional trade theory which is mostly of the Walrasian kind. In some industries, this is due to product differentiation and scale economies leading to intra-industry trade, in others to concentration and collusion among large firms, and in still others, it comes from the role of oligopolistic interactions among private producers, combined with tax, trade, and regulatory policies.

For a proper understanding of many current issues of competition in the European internal market, a new framework of positive and normative analysis is therefore required. In editing the following papers, it has been our intention to push forward our understanding of some of these important issues and to give some direction for future European research in this area.

The first three contributions provide new empirical analyses of European performance in terms of trade and industrial profitability. B. Balassa and L. Bauwens using a two-stage procedure, examine the impact on bilateral trade among European countries, in individual industries, of factors affecting inter-industry and intra-industry specialization. Their results are interpreted as providing incentives for overall trade liberalization as well as for the completion of the European integration process.

A. Jacquemin and A. Sapir also conduct an econometric analysis of intra-Community trade but focus on a set of variables that tend to be conducive or detrimental to intra-Community imports in comparison with imports from the rest of the world. A distinction is drawn between two types of factors that favour intra-area trade: those that could foster economic welfare and those that hinder a more efficient world division of labour.

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L. Sleuwaegen and H. Yamawaki construct an estimate of seller concentration at the European Community level and examine its effects on industry price-cost margins in the EC countries. One of their conclusions is that the changes in European countries' price-cost margins are not determined primarily by the factors affecting its national market – changes in national concentration and in total import and export shares – but by the full effect of the formation of the EC, including EC-wide concentration.

The next papers concern normative aspects of completing the European internal market. A. Winters analyses the consequences of prohibiting members from taxing or controlling inter-member trade, and the potential dangers of members resorting to subsidiary-based protection. In the context of the free intra-EC mobility of capital and labour, he underlines the danger of subsidiary wars. A. Smith and T. Venables study the welfare effects of changes in the EC internal market, in a partial equilibrium model of imperfect competition with economies of scale. They contrast two scenarios: one in which there are small reductions in barriers to trade and the other where a fully integrated market is created. In the second case, substantial welfare gains are generated.

The final set of papers considers a specific sector, i.e., the car industry, and extend the welfare analysis to take into account European reactions to the Japanese competition. J. de Melo and P. Messerlin show that the voluntary export restraints negotiated by the U.K., France and Germany with Japanese car makers did not achieve the results expected by the domestic car industries, namely a resumption of growth and an increase in domestic market share. Furthermore, insofar as offering similar product mixes is an indication of competition, it seems that competition has intensified between France, Germany and Japan. D. Laussel, Ch. Montet and A. Pequin-Feissolle, following the same methodology as Smith and Venables, show that an increase in the present European tariff with respect to Japanese cars could be welfare-improving, but these gains would be low. When the policies are effective, the best one is subsidy; and finally quotas and voluntary export restraints are generally inefficient.

On the whole, this special issue shows that recent advances in the analysis of imperfect competition and industrial organization are useful for a better understanding of international trade in the European Community.