

## Introduction

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The economic environment in Europe and in North America is changing significantly. The European Community has completed the internal market and is striving to accomplish further economic and political integration. Countries in Central and East Europe face economic disintegration and try to re-integrate into the world economy. At the same time the European Community is likely to grow, as additional countries, including some that belonged to the former Soviet block, actively pursue EC membership. While the European experiment of economic and political integration began in 1957 with the signing of the Treaty of Rome, North America has only recently embarked on regional economic integration through the North American Free Trade Agreement.

The papers in this volume are based on presentations at an international conference on *Agricultural Trade and Economic Integration in Europe and in North America* held in Frankfurt am Main, Germany, and organized jointly by the Department of Economics, University of Frankfurt, and the Center for International Food and Agricultural Policy, University of Minnesota. The papers analyze a variety of issues related to economic integration in Europe and in North America. Special emphasis is placed on agriculture. In the European Community, agriculture was the first industry to be exposed to the Common Market and to a common policy, the Common Agricultural Policy. Therefore there is plenty of experience as to how economic integration has affected the economic performance of this industry. In North America, agriculture is an important part of the integration process as well.

The theory of economic integration is by and large still static in character.

Frequently, analyses are limited to identifying trade creation and trade diversion resulting from regional free trade agreements. The European experience suggests, however, that dynamic aspects of integration may well be of more importance. The paper by Kehoe analyzes the effects of the North American Free Trade Agreement on capital accumulation and productivity growth in Mexico and the feedback of Mexico's accelerated growth on Canada and the United States. The results suggest that these effects are clearly more important than the static effects of the North American Free Trade Agreement.

The paper by Kilkenny focuses on the U.S. effects of agricultural trade liberalization when there are economies of scale and when markets are regionally segmented. Based on a computable general equilibrium model, the author estimates the social welfare gains of liberalization and market integration which are attributable to efficiency gains, market integration, and economies of scale.

A growing area of public concern both in Europe and in North America are the environmental effects of economic integration. Frequently it is argued that economic integration encourages the relocation of industries to countries with lax environmental regulation. Therefore, Hartmann analyzes how a quota on the use of nitrogen in EC agriculture would affect agricultural production and trade as well as the impacts of this instrument on social welfare in the Community, the United States and other countries.

The paper by Sarris analyzes the effects on EC agriculture of the completion of the internal market in the European Community, the recent reforms in the Common Agricultural Policy, and alternative scenarios for a GATT agreement. One of the results is that the reforms of the Common Agricultural Policy will induce a transfer of resources from Southern Europe to the more prosperous Northern regions.

Several countries in Central Europe have expressed interest in a membership in the European Community such as Poland, Hungary and the former Czechoslovakia. These countries have already negotiated agreement with the Community which give them preferential access to the Common Market. The paper by Tangermann suggests, that the trade concessions granted to these countries are more generous than those obtained by other countries. However, preferential access was given only in markets in which these

countries do not compete with the European Community for exports. Moreover, the social welfare gains on these markets are rather limited.

The paper by Tyers analyzes how agricultural protection in Central and East Europe which is similar to the Common Agricultural Policy would affect agricultural production, consumption and trade in this region. The results suggest that countries in Central and East Europe have a substantial production potential. A success of economic reforms and an adoption of the Common Agricultural Policy would, therefore, significantly lower market prices of agricultural commodities.