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International Economic Law

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Preface

This book is based upon the General Course held by the author at the Hague Academy of International Law in 1986.¹ In its present form the book takes account of events up to 1988. As large parts of public international law are of direct concern to international economic relations, the author presents his views on international economic law in the sequence used in his *Outline of Public International Law*.²

The author thanks Martinus Nijhoff Publishers for having enabled him to publish his views in the present expanded form. He hopes that the addition of indexes will facilitate the use of the book. The author likewise thanks Professor Elisabeth Back-Impallomeni for having invited him as visiting professor to the University of Padova in the Spring of 1988. These lectures and discussions gave him ample opportunity to update his views in the light of recent developments.

The present preface, finally, enables the author to thank his colleague James Crawford (Sydney) publicly for his invaluable help in improving the English text of the lectures upon which this book is based. The author offers his thanks to Magister Irmgard Jusits for preparing the manuscript and to Magister Erich Schweighofer for the painstaking task of renumbering the footnotes.

Vienna, 15 June 1988

IGNAZ SEIDL-HOHENVELDERN

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CHAPTER I

Introduction

1. DEFINITION OF INTERNATIONAL ECONOMIC LAW

International *economic* law, in its widest meaning, refers to those rules of public international law which directly concern economic exchanges between the subjects of international law.³ Seen from this angle, international economic law thus covers only a part, albeit an important one, of the discipline of public international law as a whole. This statement will be unwelcome to those who maintain that international economic law is or should be a discipline of its own, separate from public international law.⁴ Such a claim may be useful as a plea to increase the number of academic posts in the field of international law, yet, in our opinion, international economic law is so closely embedded in the discipline of public international law that the latter would be crippled by such a separation. Peaceful relations between subjects of international law are, after all, to a very large extent directly concerned with economic exchanges.

If, on the other hand, one were to extend the notion of international economic law even to all those aspects of international law as are indirectly affected by economic activities, this envisaged new discipline would swallow-up the old discipline altogether. Law reflects the interests of the ruling class and international law, in particular, reflects the interest of the most prominent (“hegemonial”) powers of the period concerned. These interests, in turn, are influenced to a very large extent by the aim of obtaining material gains, and thus by economic considerations, even if the actors concerned may not always be aware of the materialistic background to their actions, which, ostensibly, may appear prompted by more idealistic motives.

Be that as it may, the present book will deal only with the rules of public international law directly concerned with economic exchanges. For example, presupposing the audience to be familiar with the general problems of self-determination as of the use of force, we will discuss only the right of economic self-determination and the use of economic force.

However, the effect of this reduction of the scope of the book is offset by the necessity at least to touch upon all aspects of international economic law. We would fail to cope with the realities of present-day international life, if we omitted to deal with phenomena like the existence of multinational enterprises or of contracts concluded by States with nationals of other States. Some authors still may consider that international law should deal only with relations between States⁵ and — possibly — with international organizations,⁶ thus giving priority to a preconceived doctrine over present realities. We intend to follow the more modern doctrine which extends the categories of subjects of international law⁷ so as to include individuals, and which takes into account the possibility of other sources of international law than those enumerated in Article 38, paragraph 1, of the Statute of the International Court of Justice (ICJ) or, at least, the necessity of re-interpreting these sources.⁸

Consideration of these two factors may pave the way for the admission of a new body of rules into international economic law, the so-called "*lex mercatoria*".⁹ Comparative law shows that traders all over the world are beginning to develop uniform conditions for doing business which are more or less cut loose from any national law and enforceable mainly by arbitration. Thus the "Law Merchant" of the Middle Ages seem to come alive again. In its content, the *lex mercatoria* does not aim to regulate relations between States directly and thus it does not fit into the classical notion of international law. On the other hand, by definition the *lex mercatoria* does not form part of the national law of any State. Yet domestic courts have rejected the plea that awards based on *lex mercatoria* were not based on law and should therefore be annulled.¹⁰ If we extend the notion of subjects of international law so far as to include traders as subjects at least of international economic law, the non-national *lex mercatoria* could be counted among the sources of that law.

The difficulties in practice of separating commercial from State activities are shown by the development of the Euro-dollar market. On this market, traders place for a limited period of time amounts of currency (usually United States dollars) in a bank outside of the country where this currency is issued and where it is legal tender. These traders thus create payment facilities additional to those offered by the bank of issue of the several States, earning higher interest than in the United States, as the bank granting the loan is not obliged to keep a corresponding interest-free deposit with the US Federal Reserve Board.¹¹ The conditions for lending Euro-dollars ("Euro-loans") have a great influence on the national interest rate. The almost unfettered circulation of vast amounts of money exercises a great influence on the rate of exchange for national currencies.¹²

By thus stretching the notion of international law in order to accom-

moderate there the facts of present-day international economic life, we are again confronted with such an unwieldy mass of material that we are once more obliged to make a choice. For reasons which we will set out subsequently many inter-State economic relations are today handled within the framework of the law of the particular international organizations. The law and the activities of these organizations, concerning exclusively or, *inter alia*, certain fields of economic co-operation, are relatively well covered by monographs. Where this is the case, we will limit ourselves to discussing merely those of their activities which we consider most striking. Knowing quite well how subjective such choice will appear, it has none the less to be made or else the present book would grow into a multivolume treatise.

The same reasons of space prevent, *a fortiori*, any extension of the notion of international economic law to include transnational (economic) law,¹³ i.e., to include all rules capable of affecting human relations across national borders, without regard to the national or international origin of such rules, thus including, e.g., national rules of conflict of laws.

2. A NEW INTERNATIONAL ECONOMIC ORDER — PROGRAMME OR REALITY?

Having thus defined the scope of our subject we are immediately confronted with the formidable challenge that the world at large thoroughly disagrees on much of its content. In particular, spokesmen of the Third World¹⁴ declare most of the traditional rules of international economic law to be totally inadequate for present-day conditions. As the Third World States, by their voting strength, dispose of comfortable majorities in most world-wide international organizations, their demands for a New International Economic Order are — to a large extent — reflected in decisions of these organizations.¹⁵ Echoing these demands there have been demands for “new orders” in other fields which remain, however, more or less closely connected with economic aims and hence relate to the quest for a “New International Economic Order”. Let us mention especially the United Nations Educational, Scientific, and Cultural Organization’s (Unesco) efforts towards a “New World Information and Communication Order”.¹⁶

It is one of the grave problems of the present distribution of world economic power that the economic power of the Socialist and Third World States requesting such a change does not at all match that of the industrialized market-economy countries (the “Western and Others” Group of States in United Nations parlance). Placed in a hopeless

minority position in most organizations belonging to the United Nations family, these States resist most of these demands by long-drawn-out holding tactics, and by more or less ignoring them in the realities of economic life. As world-wide economic relations are still dominated by the States belonging to this group,¹⁷ international economic law as proclaimed by the resolutions of most world-wide organizations differs greatly from the rules actually applied.

On the other hand, these rules themselves no longer correspond to the "classical" rules developed in the era before the First World War, which mirrored correctly the economic as well as the power relations existing at that time. Prompted by "enlightened self-interest" the market-economy industrialized States themselves have gradually withdrawn from positions so favourable to them as to be provocative. Thus, the fight for the "New International Economic Order", in reality, is not a fight against a classical "old order", but against an order itself already some distance from it.

What, then, was this classical old economic order? If we were to follow the most extreme views advanced by the adherents of economic liberalism,¹⁸ this order is not a man-made order but simply the result of the free and unfettered play of economic forces resulting from the law of supply and demand. Seen in this light, this "old" international economic order was in perfect harmony with the doctrine of sovereignty prevailing at that time. The then dominant doctrine was still that of absolute sovereignty,¹⁹ placing the will of the individual State above the rules of international law. Yet, even the oncoming new doctrine of relative sovereignty, making the will of the sovereign State subordinate to the rules of international law, assumed that, in case of doubt, international law should be interpreted in such a way as not to conflict with the national law concerned.²⁰

Given this attitude, adherents of either doctrine could only welcome the idea that international economic law was not the result of man-made rules, whether made by a nation State or by an international authority, but was simply the automatic reflection of the operation of market forces. Yet we may well doubt whether such a perfectly free market economy existed anywhere else than in the minds of some liberal philosophers. Reality was, and is, different — as may be demonstrated by the related phenomenon of the so-called absolute right "to use and abuse" one's own property. Even while lip-service was paid to this unfettered freedom, practice limited the absolute right of the owner by obliging him to respect some social functions of property.²¹

Much in the same vein, even in the nineteenth century, international economic relations were not as free of influences on the part of the national States as they should have been according to the ideals of

economic liberalism. Thus States regulated the access of foreigners to their markets and collected customs duties. Even apart from these hurdles a free market could not exist without some market regulation.

For example anti-cartel laws were adopted for the very purpose of ensuring freedom of competition on the market,²² at the price of reducing freedom of contract, a principle just as dear to liberal doctrine.²³ Yet, at that time, important parts of the regulation of international markets were left to private initiative. Thus, the production quotas allotted, at present, in commodity agreements to the several producing countries in order to prevent a swamping of the market find their precursors in private control agreements to the same effect.²⁴

Present-day international economic law requires new rules and at least some changes in existing rules. Economic life has undergone considerable changes in this century. One of the most salient changes is the emergence of the Socialist State, concentrating all means of production and hence the near-totality of economic activities in the hands of the State. In this respect, the Socialist State differs from the pre-liberal mercantilist State,²⁵ where State trading, State monopolies and State-owned manufactures co-existed with enterprises in private ownership. This situation is comparable to that existing today in most of the industrialized market-economy States in Western Europe which might be described, more correctly, as mixed-economy States. Yet, the differences between these economies and those of Socialist States, in some respects, are so large that applying the existing rules, e.g., in the field of customs reduction, indifferently to States belonging to the one and to the other of these groups will lead to very different results.²⁶ The need for changes or adaptation of the existing rules is contested by neither side although there is no agreement as to the content of these new rules.

Things are more complicated when we turn from this East-West conflict to the confrontation between the industrialized North and the "South", the Third World of developing countries.

This Third World is a far from homogeneous group. There exist no strict criteria for qualifying as a developing country. The group thus includes threshold countries like e.g. South Korea, which is likely to become an industrialized country in the near future, as well as the "least developed countries" (Fourth World) without sizeable natural resources, which will continue to depend on outside aid for an unforeseeable period. Yet, in spite of this difference in their economic situation and of political tensions within the group having led to wars between its members, the Third World presents a unified front in the North-South Conflict.²⁷ In the UN, they form the "Group of 77" (States), although the group, at present, consists of more than 130 States.

The Northern States, including the Socialist ones,²⁸ pay at least lip service to the idea that, in the name of a world-wide solidarity, the Third World States should be assisted in their efforts to reach an economic level comparable to that of developed (Northern) States. It seems unlikely that the Third World, especially those States which have only recently become independent, will be able to reach this target by their own forces, hamstrung as they are by the aftermath of colonialism, by civil strife and by their single resource economies. Moreover, present-day world-wide means of communication show to the citizens of these countries what vast development efforts will be needed to bring their countries up to the economic level existing in the North. Seeing this coveted model before them every day, it is all the more understandable that they want to reach that level now and that they are unwilling to listen to the argument that the present status of the North is the fruit of development efforts over several centuries.

It is equally understandable that the developing States claim a right to development.²⁹ This is a somewhat ambiguous notion. No one would deny to a sovereign State its right to develop as it sees fit, if such development is to be achieved by its own force and without impairing existing rights of other States. However, the developing States appear to interpret this "right to development" rather as a right to be assisted forthwith to reach a stage of development comparable to that in the North, such assistance to be given either as outright aid or by the grant of preferential treatment.³⁰ The States of the North have never admitted the existence of such a general right. In so far as they recognize a legal — as distinct from a moral³¹ — duty to grant such aid, they do so only in so far as they have entered into specific commitments to such effect. Apart from these commitments there does not exist any right to development in the legal sense. The International Court of Justice has rightly held that the giving of aid "is more of a unilateral and voluntary nature"³² and that the cessation of aid cannot be regarded as a breach of the customary law principle of non-intervention.³³

The developing States are incapable of imposing such a right on the developed States against their will. The persistent opposition of the developed States to such a right rules out the idea that such a right has somehow become a part of modern customary international law. Here, as elsewhere, a rule of customary international law cannot bind a persistent objector.³⁴

However, the North, in principle, agrees to support the quest for development of developing countries. It does so without recognizing any legal obligation, but out of a spirit of world-wide solidarity. The North thus hopes to stave off the danger of a world-wide rebellion of the poor against the rich States. Yet, in the mind of the North, such solidarity can

be no one-way street. The North tends to make its assistance dependent on the South granting the North access to coveted raw materials³⁵ and on the political alignment of the Southern States,³⁶ often accompanied by some camouflage phraseology of “aid without ties”. At least, when granting assistance, Northern States will require the receiving countries they assist to increase the efficiency of the aid grants by measures to be adopted by them in the field, e.g., of family planning and agrarian reform, or by cuts in military expenditures.

Such open or implied conditions attached to Northern grants of development aid are bitterly resented by the recipient States. Even where the elites in the newly independent countries basically agree on the necessity of these measures they resent such paternalistic intervention in their domestic affairs. This resentment was one of the origins of the slogan “trade not aid”.³⁷ The developing countries were, of course, aware that under the usual terms of free-market trade they would never be able to reap profits so large as to enable them in the foreseeable future to fulfil their ambitious development plans by their own means.

The New International Economic Order, which the Third World States would like to see established, is intended to change conditions in their favour. This desired special treatment of developing countries has been justified by Virally³⁸ as establishing a “compensating inequality”. Its aim is comparable to “affirmative action” under, for example, United States legislation discriminating in favour of members of minority groups which have been discriminated against in the past.³⁹

The very idea of granting compensating inequalities has been attacked by some as an unacceptable intervention into the free play of the market forces.⁴⁰ It is self-evident that the grant of such special, more favourable terms of trade to developing countries will require at least a step towards economic planning on a world-wide scale, a notion regarded with extreme suspicion in the market-economy countries, the inhabitants of these countries being concerned lest their standard of living might thereby be reduced to that prevailing in States with centrally planned economies.⁴¹

Moreover, only world-wide international organizations are capable of establishing such special terms of trade and of controlling their observance. This, in itself, appears anathema to the staunchest supporters of economic liberalism. Thus Röpke opposed all intervention in the free play of market forces, whether coming from States or from international organizations. In so far as international trade requires any regulation, that regulation should, on this view, result from agreement between individual traders, and not from their States or from the activities of International organizations.⁴² The “Western and Others” Group of States, finding itself in a minority in most of the world-wide organizations, fears that the