Africa and the European Community after 1992

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The World Bank
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FOREWORD

In 1987 the twelve members of the European Community (EC) approved the Single European Act, thereby committing themselves to the creation of a customs union and single markets for goods and services by January 1993. The implications of these efforts are a particular concern for Sub-Saharan Africa and for the Maghreb countries.

This collection of papers was prepared for a senior policy seminar organized by the Economic Development Institute of the World Bank entitled Africa and Europe 1993 and held at Dublin Castle from November 27-30, 1989. The seminar was attended by twenty-five senior officials from the Maghreb countries and Sub-Saharan Africa, four senior EC officials, and three World Bank officials. The seminar was chaired by the Honorable Garrett FitzGerald, former Prime Minister of Ireland, and a leading figure in Lomé I, which defined the relationship between the EC and Sub-Saharan Africa.

The African participants were all senior officials who deal with international trade in their countries. For most, the papers and the proceedings of the seminar were their first exposure to the issues raised by the implementation of the Single European Act. Their analysis of these issues in the context of the situations in their own countries, the conclusions that they reached, and their recommendations are separate and valuable products of the seminar. They are summarized in the Introduction to this collection.

Amnon Golan
Director
Economic Development Institute
INTRODUCTION

In 1987, the 12 members of the European Community (EC) approved the Single European Act, thereby committing themselves to the creation of a customs union and single markets for goods and services by January 1993. (The members of the EC are Belgium, Denmark, France, Germany, Greece, Holland, Ireland, Italy, Luxembourg, Portugal, Spain, and the United Kingdom.) To implement the Single European Act, the EC is working toward removing direct controls, such as national quotas on imports into the community; removing national rules that hinder the free flow of goods and services within the community; and creating a truly single Europe by means of a social policy that, among other things, would establish work and pay standards. A single currency, a European central bank, and a single European foreign policy are envisaged.

The implications of these efforts are a particular concern for Sub-Saharan Africa and for the Maghreb countries. First, the EC countries do not have a good record with respect to protectionism. Conceivably, economic union could involve arrangements whereby some of the protectionist measures of individual states are applied uniformly to the entire EC. The imposition of new qualitative and health restrictions on imports into the EC are a virtual certainty. Second, the objective of economic union is not altruistic. Its aim is to strengthen the EC's own economic position relative to North America and Japan. This includes the political objective of gaining greater independence from the United States and also of applying the principle of reciprocity in negotiating all new arrangements with the developing countries. Third, the EC will give preferential treatment to its own poorer members over developing country trading partners in trade and investments. In addition, Eastern Europe clearly has a higher official priority than Africa for direct foreign investments and aid. Finally, non-EC countries have little influence on current EC negotiations; they are informed, but not consulted.

To help come to grips with the new issues attending European union, EDI asked the government of Ireland to pay for EC affairs expert Dermot McAleese of Trinity College, Dublin, to spend the early part of 1989 in Washington. His stay in Washington was to be capped by an EDI senior policy seminar held in Dublin later in the year. The papers in this volume were produced as bases for discussions at that seminar. While some duplication of materials occurs in the papers, the intention was that McAleese's paper on External Trade Policy of the European Community and Stevens' paper on The Impact of Europe 1992 on the Maghreb and Sub-Saharan Africa, would provide an overview of the problems and issues. Individual papers would then discuss broad economic sectors of the European economy. Jacques Bourrinet wrote about The Implications of EC Commercial Policy on Developing Countries; Alan Mathews' paper concerned African Primary Product Exports to the European Community: Prospects After 1992; and Michael Davenport's paper concerned Issues in Manufacturing Trade and Services.

The seminar was held at Dublin Castle from November 27-30, 1989, and 25 senior officials from the Maghreb countries and Sub-Saharan Africa attended. Four senior EC
officials participated, led by Franciscus Klinkenberg, Director of Development and Commercial Policy. Three World Bank officials were also present. The entire seminar was chaired by the Honorable Garrett FitzGerald, former Prime Minister of Ireland, and a leading figure in Lomé I, which defined the relationship between the EC and Sub-Saharan Africa. Mr. FitzGerald's chairmanship was particularly propitious because of his knowledge of the history of this relationship.

The following section summarizes the papers produced for the seminar. This is followed by a summary of the conclusions the seminar participants reached and their recommendations for the governments of Africa, for the EC, and for the World Bank.

The Substance of the Seminar Papers


This paper provides a good summary of major provisions of the EC's Common Commercial Policy. These provisions concern the rules that establish uniform tariffs and common adherence to trade agreements and to protection measures. They also stipulate that the EC can enter into regional trade and cooperation agreements as it has with the European Free Trade Association and a number of other regional groups.

The paper provides an excellent summary of the Community's trade patterns, including intra-Community trade and extra-Community trade, and emphasizes that Community members trade mostly with each other and with other industrial countries. Only 13 percent of trade is with the developing countries. Tables analyze the composition of imports from and exports to both industrial and developing countries as well as state trading areas. The paper also discusses developments in trade patterns with industrial and developing countries and the sources of contention that has arisen due to emerging trade imbalances with the United States and Japan: the EC has developed a sizable surplus in its trade with the United States and a deficit with Japan.

The paper concludes by examining the EC's major trade agreements with developing countries and prospective changes, both within the Community and outside, that will affect the continuing development of the Common Commercial Policy.

*Christopher Stevens, The Impact of Europe 1992 on the Maghreb and Sub-Saharan Africa.*

This is an analytical paper that, as a first step, identifies potential positive and negative effects that measures leading to economic union will have on developing countries. The paper continues with an attempt to identify the types of effects likely to affect particular groups of countries and the possible orders of magnitude involved.

The paper distinguishes between direct effects and indirect effects. The direct effects are of two kinds: a trade-creating effect attributable to faster growth in the EC, and a trade-diverting effect attributable to increased competitiveness, and hence lower costs, of production in the EC. The former are favorable to developing countries and the latter unfavorable.

Indirect effects are the results of political decisions that are taken to influence the impact of the direct effects. Some countries in the EC benefit enormously from existing trade barriers and they can be expected to try to influence the EC to offset the costs of moving to a more competitive system. Transferring the transition costs to third parties through protectionism is an obvious temptation.

The paper goes on to summarize the kinds of effects that four groups of countries—newly industrialized and middle-income countries, Mediterranean countries, Latin American countries, and the small countries of Africa, the Caribbean, and the Pacific—are likely to experience.

This paper elaborates on the Stevens paper with respect to manufactures. Its main value is that it provides a more disaggregated analysis with respect to particular groups of commodities and countries, and examines in greater detail the impact of various rules and agreements governing trade in manufactures and services, including GATT, the Multifibre Arrangement, and the Lomé agreements.


This paper elaborates on the Stevens paper with respect to agricultural exports from Africa. EC policies concerning trade in agricultural products are the most restrictive and contentious of all the EC's trade policies. What is more, in recent years the basic principle of providing income support to farmers through agricultural price supports has not changed.

The paper discusses prospective reforms in the Common Agricultural Policy and the more fundamental reforms that may result from a successful conclusion to the Uruguay Round of the GATT negotiations. It continues with a discussion of the likely impact of reforms on existing preferential arrangements of the EC with respect to trade in primary products. The paper elaborates on the trade-creating and trade-diverting effects of various reforms and the imposition of selected technical standards. Trade in chocolate and bananas are cited as examples of where internal country standards can result in preferences with respect to chocolate and the elimination of African countries’ favored status in favor of Latin American countries with respect to bananas.

Jacques Bourrinet, The Implications of EC Commercial Policy on Developing Countries.

In discussing the implications of the Common Commercial Policy for specific groups of developing countries, this paper duplicates some of the materials in the other papers. However, it is unique in that at the same time it takes global, historical, and longer-term political-economic perspectives. This approach provides a valuable supplement to the economic analysis in the other papers by clearly delineating the historical and cultural contexts in which new agreements and relationships will be formed.

Conclusions and Recommendations of the Seminar

The seminar's African participants were all senior officials who deal with international trade in their countries. For most, the papers and the proceedings of the seminar were their first exposure to the issues raised by the implementation of the Single European Act. Their analysis of these issues in the context of the situations in their own countries, the conclusions that they reached, and their recommendations are separate and valuable products of the seminar. They are summarized in the following pages.

General

1. LESSONS OF THE EC EXPERIENCE. For the moment, the lessons are political. Sovereign European countries that have frequently been embroiled in wars and economically exploitive behavior are negotiating with each other to create an economic union for their mutual benefit. They are traversing ground that has not been covered before and the processes that they employ and the skills that they develop are of interest to all governments.
Introduction

2. **Regional Economic Groupings.** While the EC may be the most important regional grouping for African governments to deal with, it is by no means the only one. Regional groupings are forming in the Americas, Asiatic groupings already exist, and Japan is developing satellite trading partners. These groupings are already diverting direct foreign investment in their own interests and are beginning to pose problems for African growth and development.

3. **African Economic Groupings.** African countries have much to gain from effective regional cooperation among themselves. Several political and economic groupings do exist in Africa, but they have insufficient political commitments from their members, and therefore generate little economic cooperation.

4. **African Debt and Capital Transfers.** The diversion of direct foreign investment to members of groups and to areas of high political priority such as Eastern Europe, is occurring at a time when Africa's debt service payments are resulting in net annual transfers of capital to the rest of the world.

5. **International Institutions and Economic Cooperation.** International cooperation in coordinating African states' economic policies is precluded by the way in which individual governments negotiate structural adjustment programs with the World Bank. Little or no consideration is given to the benefits that countries might achieve through better regional economic integration.

6. **Weakness of African Governments.** African governments cannot rely upon others to represent them effectively in trade negotiations or to help them improve economic cooperation with each other. These areas require a considerable amount of specialized knowledge and political skill and deserve high priority. Yet it is in these areas that most African governments are particularly weak.

**Threats**

7. **European Protectionism.** The greatest threat to African economies derives from the trade-diverting effects of increased protectionism for the EC's more inefficient industries. The African governments anticipate an increase in trade barriers in the form of environmental and health standards, quotas, and origination rules. The participants view the erection of such artificial barriers as a greater threat than the elimination of preferences, which many Africans felt they could not take advantage of in any event.

8. **The Declining Relative Importance of Africa.** European governments' current focus on making internal adjustments within the Community and on assisting Eastern Europe to make the transition to market economies and democratic governments will be reflected by reduced levels of resources, including intellectual resources through technical assistance, for African economies.

9. **International Distribution of Income.** A real danger exists that the creation of an EC economic union will further widen the income gap between rich Europeans and poor Africans. This would not be sustainable in a sensible and stable world economic order.

**Opportunities**

10. **Trade Creation Effects.** The benefits that the creation of an EC economic union might have for Africa would largely be attributable to increases in the Community's rate of economic growth. High growth rates would translate into increased imports from Africa, particularly of primary products, but also of some manufactures. A rapidly growing EC would be more likely to afford African governments the debt relief that they need.
11. **Cheap Capital Goods.** Increased competitiveness within the EC would likely result in cheaper manufactured goods, particularly capital goods, and costs of services for Africa.

**Recommendations**

12. **Terms of Trade.** Efforts should be made to slow down or to eliminate the deteriorating terms of trade between Africa and the EC. Part of the solution would be schemes that result in greater price stability of both imports and exports.

13. **Interregional Communications.** Africans need better access to current information on markets and technologies.

14. **Investment Guarantees.** The EC should provide increased concessions for EC citizens to make private investments in African economies. These should improve upon the concessions currently provided under the Multilateral Investment Guarantee Association (MIGA).

15. **Information and the World Bank.** The World Bank possesses a considerable amount of information relating to markets, technologies, and economic management that is not readily accessible to African governments and private citizens. The Bank should try to find ways of disseminating this information. Participants regarded the dissemination of information as a major role for the Bank.

16. **Structural Adjustment and the World Bank.** In the future, structural adjustment programs implemented in cooperation with the World Bank should make explicit efforts to promote greater regional cooperation and exploit economic complementarities among countries. The Bank should play a role in creating international partnerships.

17. **An End to Colonialism.** Europe should clearly define its policies toward African countries, abandoning the last vestiges of colonialism and patronage in favor of promoting partnerships.

18. **The Environment.** A renewed effort is needed to deal with environmental issues in Africa and to enlist African cooperation in dealing with global environmental issues. Environmental problems could have an unfavorable impact on African exports to the EC.

**Recommendations Specifically for African Governments**

19. **African Regional Groupings.** A major African response to the implementation of the Single European Act should be a determined effort to promote regional cooperation among African states. Individual countries will probably be too weak to deal with the EC and other regional groupings. As a first step, African governments should eliminate barriers to an intra-African flow of capital, labor, goods, and technology.

20. **Industrialization Strategy.** Africa needs to recapture its own markets by processing its own raw materials for export and by developing self-sufficiency in food on a regional basis. Progressive industrialization and modernization should be the region's highest priority.

21. **Communications in Africa.** The creation of strong regional groupings in Africa is dependent upon the rapid development of communications of all kinds, particularly telecommunications. More and better roads, railroads, and air transportation between African countries are needed.

22. **Political Adjustment.** Participants viewed the political style and economic management of some African countries as the most serious constraint upon the further development of economic cooperation within the region, as well as upon the flow of direct
foreign investment from abroad. They consider "political adjustment" as part and parcel of successful economic adjustment on both national and regional bases.

23. THE ECONOMIC COMMISSION FOR AFRICA (ECA). Participants saw that a strengthened role for the ECA would be essential. This will require new efforts to upgrade the ECA staff, which should help other multinational organizations to gain a clearer understanding of African problems. A strengthened ECA can be of great use in helping African regional groupings to deal with other groupings and to gradually create an economic union for Africa.
ABBREVIATIONS

ACP  African, Caribbean, and Pacific  
ASEAN  Association of Southeast Asian Nations  
CAP  Common Agricultural Policy  
CCP  Common Commercial Policy  
COMECON  Council for Mutual Economic Assistance  
EC  European Community  
EFTA  European Free Trade Association  
EIB  European Investment Bank  
EIU  Economist Intelligence Unit  
EMS  European Monetary System  
FAO  Food and Agriculture Organization of the United Nations  
GATT  General Agreement on Tariffs and Trade  
IMF  International Monetary Fund  
MCA  monetary compensation amount  
MFA  Multi-Fibre Agreement  
MIC  middle-income country  
NIC  newly industrializing country  
OECD  Organization of Economic Cooperation and Development  
QR  quantitative restraint  
UN  United Nations  
VAT  value added tax  
VER  voluntary export restraint
1
EXTERNAL TRADE POLICY OF THE EUROPEAN COMMUNITY

Dermot McAleese
Trinity College, Dublin

The European Community’s external trade policy impinges on fully one-fifth of world trade. Yet the Common Commercial Policy (CCP) remains a comparatively neglected field. It is notably underresearched relative to, say, U.S. trade policy, even though the Community’s level of trade activity exceeds that of the United States.

Three main reasons help explain the limited research on the CCP. First, the Community lacks a tradition of thinking about economic issues at the Community level. Only 6 of the 12 member states joined the Community prior to 1973. To many European economists, the implications of particular aspects of the CCP for their own country are as important as what Community policy ought to be when taking the interests of the Community as a whole into account.

Second, the CCP is inherently complex. It is multifaceted and multidimensional, the outcome of numerous compromises. Some have gone so far as to conclude that the Community has not yet managed to develop a coherent policy in its external economic relations (Yannopoulos 1985, p. 451). The Community’s approach to trade matters can appear piecemeal, and its untidy collection of regional and national trade agreements makes generalization difficult.

Third, documentation on trade policy issues is comparatively sparse; for example, neither the commission nor the European Parliament has published anything that describes the Community’s approach to trade matters in comparable detail to the discussion of the U.S. position in Congress of the United States (1987).

The commission must, of course, be cautious in its published statements on commercial policy. It must take national susceptibilities into account. There is no Community government as such; consequently agreement on a program of action on commercial policy has to be achieved by a slow and painful process of consensus between national governments. As Farrands (1983) notes:

A central theme of any study of EC external policy is inevitably the enormous difficulty of reconciling the different national and Community interests which assault the policymaker in Brussels. It is hardly surprising that day-to-day understandings, the growth of habits of work, and sometimes sheer improvisation characterize much of EC activity in this area.

The above three factors may help to explain the sharp difference in perspective between the commission and the outside world in their interpretation of the CCP. The Community has received bad press and, more often than not, is cast in the role of an unreconstructed protectionist. The tendency to see Europe from the better-documented perspective of the United States and Japan reinforces this perception. Those charged with the task of framing the Community’s policy, however, see things differently. They point to the hard struggle to

Dermot McAleese

win agreement for trade liberalization measures affecting the developing countries and to
the rapid increase in import penetration by the developing countries in the European
market. Tremendous restructuring has taken place in Europe's steel, textile, clothing,
footwear, and shipbuilding industries. Serious efforts have been made, albeit still
insufficient, to tackle the problem of Common Agricultural Policy (CAP) surpluses. The
Community's official position on the forthcoming Uruguay Round has, in its own
estimation, been strongly positive.

In considering the Community's approach to external trade, we must keep in mind the
background and preoccupations of the European policymaker. Economic and political ties
with former colonies help explain the complex series of preferential arrangements with
developing countries. The Community's comparative newness is another factor. Unlike
nation-states, the Community is still in the process of defining its identity and forging
solidarity among its members.

The regional impact of trade policies assumes great importance. The historical
tendency has been to hold the central authorities responsible for regional failings (Weiss
1988). For example, from a U.S. perspective, an employee who moves to San Francisco after
losing a job in Dallas enters the national statistics as a happy example of internal
mobility. An Italian citizen who moves to Munich after losing a job in Milan is seen in a
different light. To the Italian government, emigration has overtones of domestic policy
failure and to the German government, immigrants are a source of potential social
disruption.

Community countries may appreciate the economic advantages of factor mobility, but
this is tempered by concern about the regional distribution of these advantages and the need
for economic and social cohesion. The point is that the existence of these strong regional
and national loyalties, which are given expression through the Council of Ministers,
constitute a restraining force on trade policy. The persistence of high unemployment in
many parts of Europe further strengthens the constraints. Efforts to liberalize the CCP have
involved hard bargaining with the Community as well as between the Community and
nonmember states.

Thus, the background to Community trade policy is different in many respects from that
of other major trading groups. For this reason alone, it constitutes a worthwhile subject of
study. The evolving nature of the European Community itself makes such a study even
more challenging and worthwhile. In recent years, the Community has undergone far-
reaching changes, each of which has had, and will continue to have, significant
implications for the CCP.

Principles of the Common Commercial Policy

The European Community is an association of states with its own legal character. Its
members are united more closely than in the traditional form of international cooperation
between states. International law regards the Community as a community, not as a nation,
although it possesses many features of "nationality." Many Community laws and
regulations are enforceable in member states without requiring ratification by national
parliaments, including those governing foreign trade and the right to conclude trade
agreements with different countries (Pelkmans 1984).

The Community needs a common trade policy, because in its absence internal trade
would be impeded and the purpose of a common market frustrated. Much of the early
discussion of this matter focused on the criteria for determining the common external
tariff and on the consequences of this for individual member states. Nowadays attention
has shifted to nontariff barriers. A common trade policy, moreover, is desirable insofar as
it strengthens the Community's bargaining power. Small member states in particular
benefit from this: on their own they would be vulnerable to pressure from the United States
and Japan.
The key provisions of the CCP are contained in Articles 110–116 inclusive. Article 110 contains the well-known aspiration:

By establishing a customs union between themselves member states aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers.

The crucial article, the cornerstone of the CCP, is Article 113. It sets out the important rule that:

The CCP shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures towards the liberalisation of export policy and in measures to protect trade such as those to be taken in the case of dumping or subsidies.

Article 113 is one of the few articles that have always (even prior to the adoption of the Single European Act) functioned on the basis of majority voting in the council. This gives the commission a strong political role, since the council can decide only on the basis of a commission proposal and can overturn a commission proposal only by unanimity, something that has become even more difficult to attain in the Community of 12 than was the case in the Community of 6. Subject to the council's approval, the commission is empowered to conduct negotiations in consultation with a special committee appointed by the council for this purpose, and within the framework of such directives as the council may issue to it. Trade agreements concluded by the council are applicable to the entire Community. In the case of international commodity agreements, a common approach is developed prior to the settlement of individual country quotas. The Community has observer status at both the Food and Agriculture Organization of the United Nations and the United Nations and negotiates on behalf of member states in GATT.

To avoid deflection of trade, Article 115 allows member states that have restrictions on direct imports from outside the Community to obtain commission approval for restriction of imports of such products via other member states. It is the commission's prerogative to act in such circumstances, not the individual member state's. Tighter criteria for commission authorization of Article 115 derogations will apply starting in 1992.1

The principles of CCP are put into effect by means of certain trade policy instruments. One instrument has already been mentioned, namely, the conclusion of regional trade and cooperation agreements. The Community has signed such agreements with the European Free Trade Association (EFTA); Council for Mutual Economic Assistance (COMECON); Association of Southeast Asian Nations (ASEAN); the African, Caribbean, and Pacific countries (ACP); the Gulf States, and the Mediterranean countries. Another instrument is the Common External Tariff, which applies to all imports entering the Community. A third instrument is special tariff preferences provided to developing countries under the Generalized System of Preferences (GSP). Finally, nontariff barriers are applied.

The Community subscribes to various codes of conduct in relation to subsidies, dumping and unfair trade practices, customs valuation, and government procurement as laid down in successive GATT negotiations. Following the Tokyo Round, for example, the Community adopted the new Anti-Dumping Code, operational in Community law since 1980. Under this code, a protective response is permitted only when the dumping threatens to cause, or actually causes, "material injury" to an industry. Normally damage suffered by a national segment of a Community industry will not provide sufficient grounds to launch an action. During 1980–86, there were 280 cases taken by the Community against exporters (Finger and Olechowski 1987). Anti-dumping actions are taken by the

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1. Other relevant articles include Article 36, which allows national import restrictions on grounds of "public morality, public policy or public security." Under Article 109, a member state may, in response to a sudden crisis in its balance of payments, take action against imports.
A member state may take action only on an emergency basis, and the commission can revoke that action.\(^2\)

We can draw three broad conclusions about the principles of the CCP. First, the intention of the Community's founders was clearly a liberal trading order. Questions may be raised as to whether "harmonious" trade relations imply some preconceived notions of bilateral balance, but Article 110's reference to "the progressive abolition of restrictions on international trade" is unambiguous. Second, some ambiguity surrounds the precise national powers that have been transferred to the Community in relation to trade. Article 113 (1) appears inconclusive in its insistence on uniform principles (references to specific forms of trade policy are clearly not intended to be exhaustive). The European Court of Justice has decided that wide interpretation of Article 113 is justified to allow the Community to control external trade (Steenbergen 1980). Despite this, differences in external trade regimes in the form of nontariff barriers continue to exist among member states, some without the commission's approval. Third, even when the commission has allocated individual member state quotas, such as in relation to the Multi-Fibre Agreements, this necessarily involves some disruption of the internal community market.

With the passage of time, two trends are discernible. One trend is the commission's continuing efforts to centralize power over external relations policy in Brussels, and thereby make the CCP easier to adjust, quicker to implement, and more efficient overall. The New Community Instrument adopted by the council in 1984 was a case in point. It gave the commission greater power to respond to prejudicial trade practices by nonmember countries, including injury suffered by Community producers in third markets, and indicated a range of countermeasures that could be taken at the commission's initiative (Pearce and Sutton 1985). The commission is fighting hard to restrict member states' powers with respect to safeguard clauses, voluntary export restraints, and similar measures.

The second trend is the European Parliament's interest in external relations. This interest was given a major fillip by the amendment of Article 238 in the 1987 Single European Act so that majority approval by Parliament's 518 members is required for preferential trade and cooperation agreements proposed by the Community.\(^3\) Parliament has not been shy about using its new powers. In 1988, it held up amendments to association agreements with Israel and Turkey on grounds of dissatisfaction with the former's policies toward the West Bank and Gaza and the latter's progress in restoring civil rights.

**Trade Patterns of the European Community**

The European Community, which comprises 12 industrialized countries and a total of 360 million people, constitutes the largest trading bloc in the world. Excluding intra-Community trade, the Community's exports accounted for 20 percent of world exports in 1987. The corresponding U.S. and Japanese shares are 13 percent and 12 percent respectively (table 11-1). Extra-Community exports were worth almost US$400 billion in 1987. Trade among member states was even greater, worth over US$500 billion that same year.

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2. In addition to anti-dumping rules, the Community also applies countervailing duties to offset export subsidies. As Messerlin (1988) shows, the two measures have tended to target the same industries, notably steel and industrial chemicals. Other important elements in the application of Community policy include rules of origin, safeguard clauses, and voluntary export restraints.

3. Not all agreements are subject to this procedure. Trade and cooperation agreements with Hungary and Czechoslovakia in 1988–89, for example, were concluded under Article 113 and were not subject to Parliament's assent. Parliament will probably press to have Article 228 used as a legal basis for future agreements.
Table 1-1 The European Community in World Trade, 1987

<table>
<thead>
<tr>
<th>Exports from</th>
<th>Value (US$ billion)</th>
<th>Percentage of world exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Community (EC12)a</td>
<td>392</td>
<td>20.2</td>
</tr>
<tr>
<td>United States</td>
<td>244</td>
<td>12.6</td>
</tr>
<tr>
<td>Japan</td>
<td>229</td>
<td>11.9</td>
</tr>
<tr>
<td>Other developed countries</td>
<td>319</td>
<td>16.5</td>
</tr>
<tr>
<td>Developing countries</td>
<td>490</td>
<td>25.4</td>
</tr>
<tr>
<td>State trading areas</td>
<td>258</td>
<td>13.3</td>
</tr>
<tr>
<td>Totala</td>
<td>1,932</td>
<td>100.0</td>
</tr>
</tbody>
</table>

a. Excludes intra-Community trade estimated at US$559 million. EC12 refers to the number of member countries, that is, 12.


Over 60 percent of extra-Community trade is directed toward developed countries. Within the developed countries group, EFTA is the largest trading partner, followed by the United States and Japan (table 1-2). If intra-Community trade is added to extra-Community trade with developed countries, we find that 84 percent of the Community's trade is with industrialized countries. This explains why the Community has to give priority to conducting intra-Community trade efficiently and to maintaining trade relations with developed countries.

Table 1-2. European Community Trade by Areas, 1987

<table>
<thead>
<tr>
<th>Area</th>
<th>Imports (US$ billion)</th>
<th>Percentage of community imports</th>
<th>Exports (US$ billion)</th>
<th>Percentage of community exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>950</td>
<td>100.0</td>
<td>951</td>
<td>100.0</td>
</tr>
<tr>
<td>Within European Community (EC12)</td>
<td>553</td>
<td>58.2</td>
<td>559</td>
<td>58.8</td>
</tr>
<tr>
<td>Outside European Community</td>
<td>397</td>
<td>41.8</td>
<td>392</td>
<td>41.2</td>
</tr>
<tr>
<td>Developed countries</td>
<td>232</td>
<td>24.4</td>
<td>241</td>
<td>25.3</td>
</tr>
<tr>
<td>EFTA</td>
<td>94</td>
<td>9.9</td>
<td>104</td>
<td>10.9</td>
</tr>
<tr>
<td>United States</td>
<td>66</td>
<td>6.9</td>
<td>83</td>
<td>8.7</td>
</tr>
<tr>
<td>Japan</td>
<td>42</td>
<td>4.4</td>
<td>16</td>
<td>1.7</td>
</tr>
<tr>
<td>Other</td>
<td>30</td>
<td>3.2</td>
<td>38</td>
<td>4.0</td>
</tr>
<tr>
<td>Developing countries</td>
<td>126</td>
<td>13.3</td>
<td>117</td>
<td>12.3</td>
</tr>
<tr>
<td>State trading areas</td>
<td>34</td>
<td>3.6</td>
<td>29</td>
<td>3.0</td>
</tr>
<tr>
<td>China</td>
<td>6</td>
<td>0.6</td>
<td>6</td>
<td>0.6</td>
</tr>
<tr>
<td>Unspecified</td>
<td>5</td>
<td>0.5</td>
<td>5</td>
<td>0.5</td>
</tr>
</tbody>
</table>


Developing countries account for 13 percent of total Community trade, or about 30 percent of the extra-Community trade. The Middle East, Africa, and Asia are of equal importance in terms of trade value, with each absorbing over US$30 billion of Community products in
1987. Trade with the Lomé countries is a small fraction (only 2 percent) of total Community trade.

Commercial links with the state trading countries (the former USSR, China, and Eastern Europe) are not well developed, despite the geographical proximity of many countries in this group. The area absorbed only 3 percent of Community exports and accounted for slightly over 3 percent of Community imports in 1987.

The commodity composition of the Community's trade changes markedly depending on the geographical area (table 1-3). Thus, about three-quarters of the Community's trade with developed countries takes the form of trade in manufactured goods. Much of this trade consists of intraindustry trade, that is, a two-way exchange of products falling into the same industrial category. A contrasting pattern is evident in trade with developing countries. Over 80 percent of the Community's exports to developing countries consists of manufactured goods, but imports from developing countries are heavily concentrated in fuels and food and other primary products. The precise share in each commodity group is likely to change from year to year. The influence of the fall in oil prices is evident in the drop in the percentage share of fuel imports from 52 percent in 1985 to 33 percent in 1987. Manufactured goods form an increasingly important component of developing countries' exports to the Community. Their share reached 37 percent in 1987. Most Community-developing country trade in manufactures tends to be interindustry in form, with each side specializing in different industry groups. As we shall see later, this type of trade has created adjustment problems in the Community's labor-intensive industries. With regard to manufactured goods, while the share of manufactured goods in Community exports has

### Table 1-3. Commodity Composition of European Community Trade with Major Trading Groups, Selected Years (percentage shares)

<table>
<thead>
<tr>
<th>Trading groups</th>
<th>Food and primary products (SITC, 0, 1, 2, 4)</th>
<th>Fuels (SITC 3)</th>
<th>Manufactured goods (SITC 5-8)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports</td>
<td>Imports</td>
<td>Exports</td>
</tr>
<tr>
<td>Developed countries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>9.6</td>
<td>36.1</td>
<td>3.3</td>
</tr>
<tr>
<td>1980</td>
<td>8.5</td>
<td>23.2</td>
<td>6.3</td>
</tr>
<tr>
<td>1985</td>
<td>8.7</td>
<td>17.5</td>
<td>7.4</td>
</tr>
<tr>
<td>1987</td>
<td>15.9</td>
<td>18.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Developing countries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>11.6</td>
<td>35.8</td>
<td>1.3</td>
</tr>
<tr>
<td>1980</td>
<td>12.2</td>
<td>20.0</td>
<td>3.4</td>
</tr>
<tr>
<td>1985</td>
<td>13.1</td>
<td>26.3</td>
<td>2.3</td>
</tr>
<tr>
<td>1987</td>
<td>13.1</td>
<td>26.8</td>
<td>1.5</td>
</tr>
<tr>
<td>State trading areas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>13.3</td>
<td>40.7</td>
<td>1.0</td>
</tr>
<tr>
<td>1980</td>
<td>16.6</td>
<td>17.7</td>
<td>2.0</td>
</tr>
<tr>
<td>1985</td>
<td>13.8</td>
<td>16.9</td>
<td>1.5</td>
</tr>
<tr>
<td>1987</td>
<td>11.6</td>
<td>21.0</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Note: Figures from 1987 do not add to 100 owing to rounding errors and unclassified items. Trade with developed countries includes intra-European Community trade. Figures for 1987 refer to EC12; all others to EC10. The inclusion of the two new member states makes only a marginal difference in the data.

for many years been around 80 percent, the share of manufactures in Community imports has been increasing over time, from 62 percent to 75 percent in the case of developed countries, and from 19 percent to 37 percent in the case of developing countries.

A sustained rise has been evident over time in the importance of intra-Community trade (table 1-4). This is the most dynamic element in total Community trade, having increased from 48 percent in 1963 to 59 percent in 1987. Trends in the composition of extra-European Community trade are distorted by the influence of oil prices. Thus, the fall in oil prices in the 1980s was a major factor in the decline in the developing countries' share of Community exports from 18 percent in 1980 to 12 percent in 1987.

Table 1-4. European Community Exports to Main Trading Areas, Selected Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Total value of exports (US$ billion)</th>
<th>Developed economies</th>
<th>Developing areas</th>
<th>State trading areas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Intra-EC EFTA (6)</td>
<td>North America</td>
<td>Japan</td>
</tr>
<tr>
<td>1963</td>
<td>53.7</td>
<td>77.1 48.2</td>
<td>13.3</td>
<td>9.2</td>
</tr>
<tr>
<td>1973</td>
<td>218.9</td>
<td>81.6 55.9</td>
<td>11.3</td>
<td>8.7</td>
</tr>
<tr>
<td>1980</td>
<td>687.8</td>
<td>77.4 55.8</td>
<td>11.0</td>
<td>6.3</td>
</tr>
<tr>
<td>1987</td>
<td>950.0</td>
<td>84.1 58.8</td>
<td>10.9</td>
<td>9.8</td>
</tr>
</tbody>
</table>

Note: Data refer to EC12 in all years.

Unlike the United States and Japan, the Community has no problem of imbalance in merchandise trade and balance of payments. Total merchandise exports in 1987 of US$951 billion were about equal to total imports. Extra-Community exports of US$392 billion were about the same as extra-Community imports of US$397 billion. Exports and imports of each of the three major trading areas were also roughly equal. Looked at this way, one might have expected the Community to have enjoyed harmonious trade relationships with these countries. Certainly the Community's overall trade balance in 1987 contrasts glaringly with the United States' trade deficit of US$180 billion and Japan's trade surplus of US$83 billion. Within this aggregate balance, however, pronounced imbalances exist at the individual country level and also within individual commodity categories, and it is here that problems arise.

Since the 1960s, external trade has increased faster than Community GNP in most years, and even during the era of slower growth in the 1980s, trade has grown in tandem with the GNP. The Community's trade partners have all benefited from this growth, some more than others. Import penetration, as measured by the ratio of imports to the GDP, was 26 percent in 1987, about the same level as a decade earlier, but significantly higher than the 18 percent level in 1963. This growth rate has taken place against a background of a series of GATT rounds of tariff cuts, to which the Community has subscribed. The Community's average tariff has now fallen to 4.7 percent following a reduction of 29 percent in its tariff levels in accordance with the Tokyo Round (table 1-5). In terms of nominal protection, the Community has marginally higher rates than Japan and the United States, but there is a clear tendency toward convergence.
Table 1-5. Tokyo Round Tariff Cuts (percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Raw materials</th>
<th>Semi-manufactures</th>
<th>Finished manufactures</th>
<th>All industrial products</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Community</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rates before Tokyo</td>
<td>0.2</td>
<td>5.1</td>
<td>9.7</td>
<td>6.6</td>
</tr>
<tr>
<td>Rates after Tokyo</td>
<td>0.2</td>
<td>4.2</td>
<td>6.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Cut</td>
<td>15.0</td>
<td>27.0</td>
<td>29.0</td>
<td>29.0</td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rates before Tokyo</td>
<td>0.9</td>
<td>4.5</td>
<td>8.0</td>
<td>6.5</td>
</tr>
<tr>
<td>Rates after Tokyo</td>
<td>0.2</td>
<td>3.0</td>
<td>5.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Cut</td>
<td>77.0</td>
<td>33.0</td>
<td>29.0</td>
<td>31.0</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rates before Tokyo</td>
<td>1.5</td>
<td>6.6</td>
<td>12.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Rates after Tokyo</td>
<td>0.5</td>
<td>4.6</td>
<td>6.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Cut</td>
<td>67.0</td>
<td>30.0</td>
<td>52.0</td>
<td>49.0</td>
</tr>
</tbody>
</table>

Source: Congress of the United States (1987).

The main problem areas of the Community's trade policy concern nontariff barriers, which have become the major focus of attention in recent years. One factor behind the use of nontariff barriers has been penetration of the Community market by standardized labor-intensive products of the developing countries. Another has been the increased competition for sales in the world agricultural market. A third factor relates to the Community's weakening position in high-technology industries. The Community's share in OECD exports of these products declined steeply up to 1985, from 35 percent in 1960 to 25 percent (table 1-6). This perceived deterioration in Europe's competitive position has caused widespread concern, because many people think it indicates a weakness in Europe's strategic industries and long-run growth potential. This has led to a tough stance toward imports of certain research and development goods, a readiness to subsidize specific industries (for example, the Airbus), and above all, an appreciation of the urgent need to create a unified internal market as a basis for the growth of high-technology industries. A final factor in explaining the increased use of protection has been a sense of dissatisfaction with the GATT safeguards code.

4. Examples of policies guided by such concerns include those concerning the Airbus, video cassette recorders, and high-density televisions. European policymakers fear that the failure to develop a European high-density television system could at worst lead to all televisions being bought from Japan and all television programs being bought from the United States. Since 1985, the deterioration in the European Community's share of this trade has been halted, in part because of faster growth and more market integration.
### Table 1-6. High-Technology Manufactures: The European Community’s Share in Total Exports of All OECD Countries, Selected Years (percent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>High technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EC10</td>
<td>35</td>
<td>28</td>
<td>27</td>
<td>25</td>
</tr>
<tr>
<td>United States</td>
<td>24</td>
<td>17</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Japan</td>
<td>6</td>
<td>12</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>All industries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EC10</td>
<td>32</td>
<td>27</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td>United States</td>
<td>21</td>
<td>15</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Japan</td>
<td>6</td>
<td>11</td>
<td>12</td>
<td>17</td>
</tr>
</tbody>
</table>

**Note:** Figures include intra-European Community trade. High technology includes electrical and electronic equipment, office equipment, chemicals, and pharmaceuticals.

**Source:** Commission of the European Community (1987).

### Trade Relations with Developed Countries

As we have seen, most of the Community’s trade is transacted with three major industrial areas: the EFTA, the United States, and Japan. Canada and Australia are also significant trading partners, but the issues affecting trade with them are in many instances the same as those affecting trade with the larger countries and regions. Although trade with industrial countries is in theory governed by GATT rules, this has not prevented controversy and disputes about many specific issues.

Trade relations between the Community and the EFTA have been remarkably free of friction. Former European Commissioner Lord Cockfield described this trade as “a marvellous example of economic cooperation to the benefit of both parties” (Cockfield 1986). The EFTA-EC relationship was originally a free trade agreement, but the Luxembourg Declaration of 1984 extended cooperation into related areas, such as technical legislation, simplification of documents, research and development, and environmental questions. The aim was to create a homogeneous and dynamic European Economic Space. With the advent of the single market, the EFTA countries’ main concern has been to ensure that they do not lose out from the creation of a more integrated community (Pintado and others 1988).

Three factors help to explain why EFTA-EC trade relations have been comparatively harmonious. First, trade has been concentrated in nonsensitive manufactured goods characterized by a large proportion of intraindustry trade. Second, agricultural trade, an inveterate generator of trade disputes, accounts for only 4 percent of total trade between the two areas. Although EFTA countries protect their agricultural sectors, they have not become large net exporters of food in competition with Community producers. Third, the Community has had a consistent trade surplus with EFTA since 1973, while also being the indisputably more powerful party in the trade relations of the two groups.

In contrast with the comparatively unruffled nature of EFTA-EC trade, relations with the United States and Japan have been stormy and difficult, although in different ways and centering around different issues. European economic relations with the United States have been based on strong political and cultural ties as well as common economic interests. Yet the evolving pattern of U.S.-Community trade has been the subject of repeated disputes. Indeed, at times the two partners seem to be locked into a state of perpetual crisis. Within the past few years, trade wars have threatened to erupt because of disputes over steel, pasta, citrus fruit, agricultural exports to the Arab Republic of Egypt, the Mediterranean enlargement, and hormones in beef.
One major source of contention is related to the balance of trade. For a long period, up to 1984, the Community had a deficit on its trade balance with the United States. Since then the deficit has turned into a large surplus. The scale of the change has been remarkable. In 1987, the surplus reached US$44 billion. The main force underlying this development was the massive expansion of Community exports of manufactures to the United States. Exports of engineering products more than doubled in value between 1982 and 1987, rising from US$17 billion to US$44 billion. Exports of European cars to the U.S. market were also buoyant, having doubled over a five-year period to US$14 billion in 1987. Faster growth in the U.S. economy and the opposite problem of slow growth in the Community explain this dramatic change. The buoyancy of the American economy clearly had beneficial spillover effects in the Community via an increased export demand.

Trouble has also flared on a number of issues in relation to manufactured goods. In the case of steel, the Airbus, and some energy-intensive products, the arguments have centered on the existence of subsidies and their trade-distorting effects. Technology exports to the former USSR and the Middle East from U.S. subsidiaries located in the Community have also caused difficulties. What the United States views as a legitimate restriction on the exports of an American corporation is seen in Europe as an infringement of political sovereignty (the extraterritoriality issue). Trade in services has also led to tension, with the commission initially insisting on reciprocal access to the U.S. market as a condition for relaxing the rules on establishing American banks in the Community. (This last problem has now eased with the Community's acceptance of a national treatment formula.)

The third and most enduring cause of friction has been trade in agricultural products. The erosion of the U.S. surplus in food trade with the Community has been ascribed to the domestic price support given by the CAP. The United States has further objected that the Community's increasing food surpluses are being sold at subsidized prices on third markets, thereby creating difficulties for American exporters to these markets. The Community retorts, not without justification, that agricultural subsidies are applied on more than one side of the Atlantic. This underlines the problems that arise when all countries try to subsidize the same product.

A trade dispute of crisis proportions arose following the 1986 enlargement, when the United States claimed that their agricultural exports to the Community would suffer as a result of the extension of the CAP regime. During 1988, the main source of tension was the Community's threatened ban on importation of U.S. beef containing hormones. The value of trade involved was only US$100 million, an insignificant sum in the context of total Community imports from the United States of US$66,000 million. But the issue was nevertheless highly charged, following as it did the U.S. Omnibus Trade Act of 1987, which Europeans feared might presage an upsurge of U.S. protectionism, and the prospect of 1992, which many Americans feared might lead to a protectionist "Fortress Europe."

Although full-scale trade wars have threatened to break out on many occasions in the past, the strong mutuality of U.S. and Community interests has thus far saved them from the brink. Trade relations are characterized by constant levels of minor friction rather than a deeply set divergence of interest. Certainly a tit-for-tat series of retaliations would leave both Europe and the United States much worse-off, a fact that both sides appreciate.

Turning to Japan, the trade imbalance features prominently as a basis for contention, but in this instance it is the Community that has a deficit to complain about. The rapidly growing deficit (US$26 billion in 1987) is attributed to the combined effects of the strategic targeting of specific markets by Japanese firms and by Japan's unwillingness to open its market to Community exporters. Sore points include the construction of Kansai Airport, where Community tenders were unsuccessful; the discreet protection of alcoholic beverages created by Japan's taxation system; and asymmetric opportunities for entering the financial sector in the two areas, with Japanese firms' access to European financial markets being compared unfavorably with movements the other way.

The persistent deficit in Community trade with Japan can be resolved by increased exports to Japan, by direct investment by Japanese business in Europe, or by restrictions on
Japanese products entering the Community. The Community is currently taking action on all three fronts. Thus, strong pressure was placed on Japan to liberalize access to its markets. Export-enhancing schemes, such as assistance for marketing in Japan and special visit and study programs, have been initiated to ensure that European business is in a position to make the maximum use of improved access to the Japanese market.

Japanese investment in Europe has also been increasing rapidly. Britain has been a major beneficiary of this trend, and the community’s less-developed regions, which include Ireland and the Mediterranean countries, have a keen interest in raising their share. Policy toward such investment has, however, been ambivalent. Direct investment is, on the one hand, seen as an effective counter to the accusation that Japanese imports are “destroying” jobs in Europe. On the other hand, competition from Japanese subsidiaries is seen as a threat to established industry. (Never mind that “established” industry includes subsidiaries of non-European firms such as Ford, whose only claim to preterest is that they got into the Community market first.) The French, for example, threatened to ban imports of British-made Nissan Bluebird cars in 1988 because less than 80 percent of the value of the car was actually made in Europe. (The threat was subsequently withdrawn under pressure from the commission.) An instance of restrictive action by the Community is the 1987 legislation directed against the so-called “screwdriver factories,” which assemble electronic typewriters, copiers, and other items using few European parts, on the grounds that they open the way for an indirect form of dumping.

The attention focused on Japanese trade is scarcely proportionate to its relative significance for the Community. It accounts for only 7 percent of total extra-EC trade. The main problem is Japanese pressure on specific sectors of Community industry such as electronic equipment (video cassette recorders, photocopiers, and so on) and cars. Over 80 percent of Japanese exports to the Community consist of engineering products (mostly SITC 7) compared with corresponding figures of 53 percent of U.S. exports and 32 percent of EFTA exports. Community members usually express this problem by protesting about the difficulty of surmounting Japanese nontariff barriers and complaining about the trade deficit. The action taken generally involves negotiating with the Japanese authorities to exercise voluntary export restraints (VERs) or the stringent imposition of anti-dumping duties, which some argue are used improperly as a protectionist device.

Understandably, the apparent bilateral emphasis of the Community’s approach has attracted much criticism. Curzon and Curzon (1987) refer to the “follies” of Community protectionism and to “naive bilateralism” in this regard. Given the Community’s healthy overall trade balance, the problem really is one of protection for key industries. Drawing not always convincing sustenance from modern strategic theories of protection (Krugman 1986), the Community insists that Europe’s technological position must not be undermined, and that reciprocity must be the key concern in industrial sectors characterized by small numbers of producers and extensive research and development externalities. Clearly, a strategy of increasing Community exports to Japan would be superior to protectionism on economic grounds. The European consumer has gained enormously from access to Japanese goods. One only has to think of the vast improvements in the quality of automobiles that Japan pioneered and Europe imitated and developed. Expansion of European exports would have the additional advantage of building up a European interest

5. An example is the agreement by Japan following talks with European officials in June 1987 to relax inspection procedures on EC imports of automobiles. The proposal is to test 1 out of every 100 imported cars rather than 1 out of every 50. It is significant that the Europeans have already achieved a modest foothold in the Japanese market, with a 2 percent share of the overall Japanese car market and a 30 percent share of the expensive, luxury car market.

6. The Council of Ministers adopted legislation in June 1987 that aimed at preventing foreign assembly types of operations from avoiding anti-dumping duties. Duties will, in certain circumstances, attach to imported inputs as well as to the final output.
group with a commitment to liberal trade relations with Japan and with the power to moderate protectionist sentiment.

The Community's trade relations with developed countries are, therefore, by no means uniform. An overall trade balance exists; that is, exports to countries outside the Community are roughly equivalent in value to imports from them. But this conceals many imbalances at the sectoral and country level, which has given rise to friction. In a strategic sense, the most serious problem relates to Japan because of the absence of a strong Community export lobby with an economic interest in selling to Japan, weak historical and cultural ties, concentration of pressure in high-technology industries, and the huge trade imbalance. At the sectoral level, the most acute source of difficulty is agriculture and, as we have seen, disputes about food trade have caused intense frustration to both the United States and the Community. Clearly, progress in reducing agricultural protectionism is needed.

**Trade Policy toward Developing Countries**

Trade relations with the developing countries are governed by a large number of separate agreements. Some indication of the range of these arrangements is given by table 1-7. One author refers to the "pyramid of privilege." At the top of the pyramid, the small proportion of trade with African, Caribbean, and Pacific countries receives the most favorable treatment, while at the bottom, the larger proportion of trade has to make do with tariff preferences. In between are the beneficiaries of the Global Mediterranean Policy, a series of independent association agreements with countries bordering the Mediterranean that enjoy special privileges with respect to agricultural goods and direct foreign investment (Pomfret 1986), and other groups singled out for special treatment.

The most important regional agreement providing special and differential treatment is the Lomé Convention. Signed in 1975 and renewed every five years since then, it gives a group of 69 ACP countries preferential access to community markets. The Lomé accord encompasses more than tariff reductions. It includes the relaxation of nontariff barriers, less stringent enforcement of trade regulations, and exemptions from multilateral trade agreements such as the Multi-Fibre Agreement. Special aid and technical cooperation arrangements supplement the trade provisions. ACP countries account for 17 percent of community imports from developing countries, but only 6 percent of total community imports. By contrast, the Community absorbs 38 percent of total nonoil ACP exports.

For most developing countries, the GSP dictates the degree of preferential access for their exports to the Community. Initiated in 1971, the purpose of the GSP was to help developing countries industrialize through exports to the developed world. Most developed countries have now adopted some version of the GSP; in the case of the United States and the United Kingdom, not without some initial reluctance (MacBean and Snowden 1981), and about 150 developing countries receive preferences. Of the industrialized countries, the Community was the first to introduce a GSP.

The GSP provides duty-free access for industrial products, subject to ceilings; in the case of "sensitive" products, these are classified by country of origin and member state of destination. The Community's GSP involves some 40,000 different bilateral and communitywide quotas and ceilings (Davenport 1986). The GSP also applies to nearly 400 agricultural products, but preferences are limited and products that compete with Common Agricultural Policy products are excluded. The coverage of manufactured goods is, therefore, the most relevant, although very complicated because of the intricate methods of assigning tariff-free quotas. Products are divided into sensitive and nonsensitive categories and into further subdivisions within these categories. The GSP regimes for textiles and clothing are conditioned by the Multi-Fibre Agreement, which has assigned quotas for these products. Another restrictive feature of the GSP is the exclusion or
Table 1-7. Major EC Trade Arrangements with the Developing Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>African, Caribbean, and Pacific countries</td>
<td>Lomé Convention</td>
</tr>
<tr>
<td>Least-developed countries</td>
<td>Nine non-Lomé signatories in this category receive special concessions</td>
</tr>
<tr>
<td><strong>Northern Mediterranean</strong></td>
<td></td>
</tr>
<tr>
<td>Cyprus, Malta, Turkey, Yugoslavia</td>
<td>Association agreements, trade and cooperation agreements</td>
</tr>
<tr>
<td><strong>Southern Mediterranean</strong></td>
<td></td>
</tr>
<tr>
<td>Maghreb countries (Algeria, Morocco, Tunisia)</td>
<td>Preferential trade and cooperation agreements involving free access for industrial exports, specific concessions for some agricultural output, and financial aid and cooperation agreements</td>
</tr>
<tr>
<td>Egypt, Jordan, Lebanon, Syria</td>
<td></td>
</tr>
<tr>
<td><strong>Asia</strong></td>
<td></td>
</tr>
<tr>
<td>India, Pakistan, Sri Lanka, China</td>
<td>Nonpreferential economic and trade cooperation agreements with each country</td>
</tr>
<tr>
<td>Association of Southeast Asian Nations (Indonesia, Malaysia, Philippines, Singapore, Thailand)</td>
<td>Regional framework agreement</td>
</tr>
<tr>
<td><strong>Latin America</strong></td>
<td></td>
</tr>
<tr>
<td>Argentina, Brazil, Mexico, Uruguay, Andean</td>
<td>Nonpreferential economic and trade cooperation agreements with each country</td>
</tr>
<tr>
<td>Pact countries</td>
<td>Regional framework agreement 1986</td>
</tr>
<tr>
<td>Central America</td>
<td></td>
</tr>
<tr>
<td><strong>Near East</strong></td>
<td></td>
</tr>
<tr>
<td>Gulf States (Saudi Arabia, United Arab Emirates, Kuwait, Oman, Qatar, Bahrain)</td>
<td>Gulf Cooperation Agreement</td>
</tr>
<tr>
<td>North Yeman</td>
<td>Nonpreferential agreement covering trade and economic cooperation</td>
</tr>
</tbody>
</table>

*Note:* Nonpreferential means receiving no preferences in addition to those available via the Generalized System of Preferences.


...
countries. Moreover, effective tariffs on these products, the best measure of the protective effect, are much higher than nominal tariffs.

Table 1-8. Post-Tokyo Round Tariff Averages on Community Imports from Developing Countries in Community Trade, 1987

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percent</th>
<th>Coefficient of variation</th>
<th>Share of developing countries in total imports (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>13.8</td>
<td>0.89</td>
<td>55.4</td>
</tr>
<tr>
<td>Agricultural raw materials</td>
<td>3.3</td>
<td>1.55</td>
<td>30.5</td>
</tr>
<tr>
<td>Mineral fuels</td>
<td>3.4</td>
<td>0.88</td>
<td>65.1</td>
</tr>
<tr>
<td>Ores and metals</td>
<td>4.0</td>
<td>0.67</td>
<td>31.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.0</td>
<td>0.61</td>
<td>20.3</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td>4.2</td>
<td>0.60</td>
<td>14.1</td>
</tr>
<tr>
<td>Textiles and clothing</td>
<td>10.5</td>
<td>0.39</td>
<td>60.6</td>
</tr>
<tr>
<td>Machinery transport and equipment</td>
<td>4.7</td>
<td>0.69</td>
<td>10.2</td>
</tr>
<tr>
<td>Other manufactures</td>
<td>5.2</td>
<td>0.56</td>
<td>19.0</td>
</tr>
<tr>
<td>All sectors</td>
<td>7.8</td>
<td>0.92</td>
<td>40.0</td>
</tr>
</tbody>
</table>


Second, nontariff barriers to imports from developing countries have been growing in importance in the forms of VERs, quotas, or the use of safeguard clauses, surveillance techniques, and anti-dumping measures (World Bank 1987). Instances of nontariff barriers abound, particularly in the case of steel, television sets, footwear, cutlery, and other manufactured exports from the newly industrializing countries.

Third, the Community's system of preferences has been criticized for being excessively complex and uncertain in its application. Successful exporters to the Community complain that their very success leads to the imposition of new rules and restrictions on their markets.

Fourth, some argue that the Community's predilection for preferences weakens the GATT system based on nondiscrimination in trade, and that in the long run the interests of the developing countries would be better served by multilateral agreements within GATT (Promfret 1986; Wolf 1987).

A degree of resistance to manufactured imports from developing countries could be expected in the Community, given the labor-intensive nature of such trade and Europe's high unemployment rate. The labor-intensity of developing country exports, according to orthodox comparative advantage is, of course, the source of substantial gain to the Community consumer. Producers of competing imports in the Community, however, are vulnerable to redundancy and rationalization as a result of import penetration. The contrast between the labor content of manufactured imports into member states from developing countries and from the industrialized OECD countries is very marked (table 1-9). In the case of trade with developing countries, the labor content of imports is higher than that of exports by 41 percent in the United Kingdom, 32 percent in France, and 31 percent in Germany.
An important question is whether the Community’s protective measures have been effective in limiting import penetration and preserving jobs. Manufactured imports from developing countries into the Community have been growing rapidly. Between 1984 and 1987, they increased by US$23 billion to US$47 billion. During the same period, their share of total Community imports of manufactures rose from 6.7 percent to 7.2 percent. Imports from developing countries increased significantly in real terms during 1976-84. The most notable increases were for chemical products, footwear, machinery, electrical products, precision and audiovisual instruments, furniture, and toys (van Themaat and Stevens 1987). Even more significant, high levels of nontariff barriers did not prevent a persistent rise in import penetration ratios of the six major newly industrializing countries (NICs) in the Community market through the 1980s (table 1-10). Between 1970 and 1985, import ratios for manufacturing imports from the newly industrializing countries more than trebled in the major Community countries. These figures vindicate Pelkmans’ view that “it would be inappropriate to misread the targeted increase in EC protection towards NICs as a refusal to participate further in the world division of labour” (Pelkmans 1987, p. 39). Moreover, despite criticism of protection, the Community’s clothing, iron, and steel industries have been drastically rationalized, with the loss of over one million jobs in textiles and clothing alone during the past decade.

The Community’s trade policy toward the developing world contains trade-liberalizing and trade-restricting tendencies. The Community has enlarged the product coverage and geographical scope of its preferential arrangements and the commission is genuinely committed to the promotion of harmonious relations with the developing world. Against this must be set the long list of special interventions against imports of individual developing countries in response to specific member country and industry pressures. Restrictions on imports of Common Agricultural Policy–related products have also been a source of difficulty for many developing countries (Matthews 1985). The line between these opposing forces of liberalization and restriction is hard to draw. The complexity and discretionary nature of the Community’s trade policy makes such evaluation especially difficult. However, an analysis of trade trends indicates that despite the barriers placed against them, developing countries have made progress in selling to the Community market, and those most discriminated against have performed best of all.7

7. This conclusion seems to have wider applicability than to Community trade. A study of the effects of developed countries’ protection found that increasing protection has had more effect on the commodity composition and geographical patterns of developing countries’ exports than on the aggregate level of their export earnings (OECD 1985, p. 183).

Table 1-8. Ratio of Labor Content of Manufactured Imports and Exports

<table>
<thead>
<tr>
<th>EC country</th>
<th>Trade with OECD</th>
<th>Trade with developing countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>1.06</td>
<td>1.28</td>
</tr>
<tr>
<td>Former Federal Republic of Germany</td>
<td>1.06</td>
<td>1.31</td>
</tr>
<tr>
<td>France</td>
<td>1.02</td>
<td>1.32</td>
</tr>
<tr>
<td>Italy</td>
<td>0.88</td>
<td>1.15</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.05</td>
<td>1.16</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.94</td>
<td>1.41</td>
</tr>
</tbody>
</table>

Table 1-10. Import Penetration Ratios: Six Major Newly Industrializing Countries, Selected Products, 1970 and 1985

<table>
<thead>
<tr>
<th>Country</th>
<th>Total manufacturing (ISIC 3)</th>
<th>Textiles, clothing, leather, and footwear (ISIC 32)</th>
<th>Electrical machines and appliances (ISIC 383-3832)</th>
<th>Radio, TV, and communication equipment (ISIC 3832)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Former Federal Republic of Germany</td>
<td>0.38</td>
<td>1.40</td>
<td>1.33</td>
<td>7.96</td>
</tr>
<tr>
<td>France</td>
<td>0.15</td>
<td>0.79</td>
<td>0.11</td>
<td>2.08</td>
</tr>
<tr>
<td>Italy</td>
<td>0.27</td>
<td>0.91</td>
<td>0.34</td>
<td>1.18</td>
</tr>
<tr>
<td>Japan</td>
<td>0.30</td>
<td>0.85</td>
<td>1.17</td>
<td>3.82</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.41</td>
<td>1.42</td>
<td>2.10</td>
<td>7.74</td>
</tr>
<tr>
<td>United States</td>
<td>0.49</td>
<td>2.41</td>
<td>1.53</td>
<td>11.16</td>
</tr>
</tbody>
</table>

Note: Import penetration ratios relate to imports into the above developed countries from Brazil, Hong Kong, Mexico, Republic of Korea, Singapore, and Taiwan.


Development of the Common Commercial Policy

The Community’s external relations are likely to be affected both by internal changes in the Community and by developments outside the Community. The most important of the internal developments are the adjustment to the Mediterranean enlargement and the long-term consequences of the completion of the Community market. The main external factor influencing the CCP is the Uruguay Round negotiations. The rapprochement between COMECON and the Community will demand increasing attention, despite the small share of State Trading Countries in total trade. An important issue on the horizon is the Community’s response to present and future applications for membership and closer association.

The first of these changes is the Mediterranean enlargement. Greece joined the Community in 1981, followed by Spain and Portugal in 1986. The expected economic impact of the enlargement has been extensively researched (Tsoukalis 1981; Donges and others 1982). The economic impact relates not only to trade, but also to the internal dynamics of adding three new, comparatively less-well-off members to the Community of Nine. As far as external relations are concerned, the main issues relate to: (a) the external trade creation effects following the alignment of the new entrants’ protection to the common Community level; (b) displacement effects in the case of manufactured goods exports from closely competing Mediterranean countries and newly industrializing countries; and (c) displacement/trade diversion effects on agricultural exports. The strain on United States–Community relations resulting from the reduction in U.S. grain exports to Portugal and Spain has been noted earlier. Although the United States has gained from external trade creation, it is unfortunate that, as Yannopoulos observed: “Most of the trade diversion effects of the formation and extension of the EC were concentrated in agricultural trade—a section of trade inextricably linked with the critical issues of American domestic policy” (Yannopoulos 1988, p. 122).

The effect of the enlargement on the CCP in the medium term has been another source of concern. While Latin American countries have benefited from stronger Community interest, partly owing to their historical ties with Spain and Portugal, some evidence exists of trade diversion from Latin America to ACP and EC suppliers (IMF 1989). Asian newly industrializing countries felt especially vulnerable and feared that the enlargement
would result in a tougher CCP, more ready than before to apply restrictions on successful exporters and to invoke safeguard clauses. Although a plausible hypothesis, hard evidence to support it has not been forthcoming and the jury is still out.

The second major change was the Single European Act (1987) and its proposals for the completion of the internal market by 1992. The act's provisions for a complete internal market will have direct and indirect consequences for trade policy. Thus, if intra-Community frontier controls are to be abolished by 1992, GSP national quotas will have to be eliminated. National restrictions on nonmember imports will become unenforceable and all intra-EC measures of protection will have to be amended. A key policy issue is whether the direction of the amendment will be toward higher protection as exponents of the "Fortress Europe" concept predict, or whether by stimulating internal growth, the Single European Act will strengthen Europe's commitment to a liberal trading order. Previous enlargements have led to more, not less, liberalization.

Clearly there is no logical inconsistency between pursuing internal reform and external liberalizations simultaneously. To the extent that completion of the internal market succeeds in reactivating the European economy, adjustment to external competition becomes easier. But completion of the market will itself involve adjustment costs and member states may wish to minimize the further dislocation implicit in more liberal external trade policies (Henderson 1989). Community producers will also be anxious to ensure that non-Europeans do not reap all the benefits of an integrated market. Calingaert (1988) expresses an American fear that the Community will attempt to distinguish between "local" and "foreign" firms and to give preference to local companies. President Delors in his January 1989 statement to the European Parliament asserted that "the single market will be open but it will not be given away." The first part of this sentence represents the commission's conviction; the second part is what gives ground for concern elsewhere. It is too soon to say for certain which view will be vindicated.

The Uruguay Round negotiations, which began in 1986 and were scheduled to end in 1990, will test the Community's ability to put principles into practice. The Community played a strong supporting role in getting the round started. It recognized the need for trade liberalization in goods and supported the inclusion of services on the agenda. The need to strengthen GATT structure and disciplines and to adapt them to new areas of application was also a theme of the Community's approach to the negotiations. The Community signaled its commitment to differential and more favorable treatment of developing countries, while tempering this with the expectation that in return the more prosperous developing countries should be expected to make some reciprocal concessions. The Community's position on the details of the negotiations will be clarified only with the passage of time. There are many important areas of disagreement between the Community and both the developed and developing countries. In agriculture, for example, the community has opposed proposals for complete liberalization. Instead it proposed a phased reduction of subsidies and import barriers, beginning with emergency action in the most affected markets (cereals, dairy products, and sugar).

On the important issue of GATT reform, the Community adhered to its position that selective safeguard action should be permitted against individual country exports in case of damage to domestic industry; a position that Japan and many newly industrializing countries have opposed. In relation to manufactured goods, the Community supported the phasing out of tariffs, but the removal of nontariff barriers would have to be contingent on reciprocal action on the part of trading partners (except for the weaker developing countries) and on agreed procedures for dealing with domestic difficulties arising from import penetration. A recurrent element in the Community is the stress on balanced and genuine progress in liberalization. The same concern applies in the case of financial services where reciprocity in terms of market access is the central point at issue.

Trade in services is exceptionally important for the Community: in 1984, its balance of trade in services was in surplus by US$91 billion. Talks on the liberalization of trade in services have taken place as part of the global negotiations but, unlike goods trade, outside
the framework of GATT. This procedural precaution should ease the introduction of rules for services, which may be markedly different from those that normally apply within the GATT framework.

Relations between COMECON and the Community have for many years been dogged by the former's refusal to afford the Community diplomatic status and the latter's insistence on its right to negotiate trade relations bilaterally. The Community justified its approach by arguing that the commission had greater jurisdiction over trade relations than COMECON. Another factor was the Community's reluctance to conclude an agreement that would strengthen Moscow's hold on Eastern Europe. Following an approach by COMECON to the Community in 1984, relations between the two blocs improved. In 1986, COMECON countries, which included Moscow's six Warsaw Pact allies as well as Mongolia, Cuba, and Vietnam, indicated their willingness to establish normal diplomatic relations with the Community and to deal with trade questions on a pragmatic basis. Two years later, the two parties signed a formal joint declaration of mutual recognition.

To Eastern Europe, the advantage sought was access to Europe's technological and financial resources and foreign currency earnings from a prosperous market. The Community, for its part, saw economic advantages in trade with COMECON in addition to the political benefit of gaining implicit recognition of West Berlin as part of the Community and strengthening ties with Eastern Europe (European Parliament 1986). These considerations are especially pertinent in existing trade (accounting for 45 percent of Community exports to COMECON in 1986). The former Democratic Republic of Germany, often called the 13th member of the Community, had privileged access to the Community through the former Federal Republic of Germany. Trade and cooperation agreements were concluded with Hungary and Czechoslovakia following the COMECON-EC declaration and more such agreements are likely to follow. Recent events in Eastern Europe indicate the potential for a very rapid expansion of trade with these countries. This may well occur outside the COMECON context, given the uncertain future of that organization. Of the other non-COMECON members of the State Trading Area, China has had diplomatic relations with the Community since 1975, and a trade and economic cooperation agreement entered into force in 1986. By then, China had become the Community's third most important source of imports among the developing countries.

As the process toward intra-Community integration intensifies, the question of Community membership has become increasingly important. Some nonmember countries have been worried at the prospect of being excluded from the internal market. Turkey has applied for full membership and Austria, Cyprus, and Malta have made approaches. There is a general uneasiness in EFTA countries about their exclusion from the decisionmaking process of a Community that is likely to have an increasingly important impact on their welfare.8

While the Treaty of Rome states that any European country may apply for membership, the treaty also stipulates that a unanimous decision by the council is necessary for an application to succeed. At present, Turkey's vigorous campaign for full membership is likely to founder on opposition from countries that fear the inclusion of this populous and low-income state, as well as the more predictable opposition of Greece. Austria's position on neutrality is likely to be a source of difficulty in consideration of its application. Generally, there is a feeling in the Community that time is needed to absorb the latest enlargement and to adjust procedures and institutions before undertaking any new enlargement.

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8. In terms of trading, EFTA countries are about as closely integrated with the Community as Community countries themselves (Krugman 1988). Austria and Switzerland, for example, import more from the Community as a percentage of their total imports than most member states.
Conclusions

The Community is a large and powerful trading bloc. Its foreign trade policy affects other countries' welfare as much as, if not more than, its own. Through trade diplomacy and as a participant in GATT, the Community plays a key role in the evolution of the international trading system.

The Community's trade policy is based on liberal principles. Nothing in it justifies describing it as either a "rich man's club" or "Fortress Europe." Yet many aspects of the Common Commercial Policy have been a cause of concern to third countries. First, agricultural protection threatens third-country producers with market disruption. Second, preferential agreements sit uneasily beside commitment to the GATT principle of nondiscrimination. Besides, the Community is finding to its cost that since preferences cannot by definition be afforded to all countries, the proliferation of preferential agreements leads to diminishing returns. Third, nontariff barriers are a source of friction in relations with both developed and developing countries. Fourth, as services trade grows in importance, the need for rules relating to this trade has become more apparent.

This paper has discussed the Community's policy and how it is likely to change. Clearly the policy is in a state of transition as the Community responds to new internal and external pressures. In responding to these pressures, the commission will be conscious of past successes as well as potential dangers. Among the CCP's successes can be included the establishment of a common external tariff, the Community's strengthened bargaining power, a positive approach to developing countries, and active participation in the GATT rounds. Its limitations as viewed by outsiders have been noted above.

Member countries also have their particular concerns. For one thing, the CCP is still not wholly uniform in its application. National quotas continue to exist (some of them sheltering under historical grandfather clauses; some permitted by the commission as temporary restrictions under Article 115; others not approved by the commission but enforced via national standards and certification procedures or industry-to-industry agreements). Moreover, there is no common Community position relating to export subsidies. France, for example, offers extensive export credit on soft terms. Yet the logical corollary of a common external tariff is a common approach to subsidies on exports. In addition, individual national interests pull the Community in different directions and threaten paralysis in decisionmaking on external policy.

In an effort to deal with these internal and external criticisms and at the same time move toward a more liberal and ordered international trading environment, the Community has stressed the importance of reciprocity. Whether in the case of Japanese trade, a new services agreement, or concessions to the better-off developing countries, a recurrent theme is the need for similar treatment of imports on both sides. Clearly, this emphasis on reciprocity is helpful in securing agreement within the Community on trade-liberalizing measures. The ethical attractions of a level playing field are obvious. The danger lies, however, in defining it as one where each side scores an equal number of goals. The argument by Community automobile manufacturers that increased access to the Japanese market should be monitored in terms of target market shares is a case in point (Kelly and others 1988). Alongside reciprocity, the Community has also emphasized the need for greater global exchange rate stability and realistic exchange rate policies in

9. ACP countries, for example, issued a declaration objecting to cuts in tariffs offered by the Community on tropical products in late 1988 because these would erode their own preference margins in Community markets.

10. A list of Article 115 authorizations is provided in Kelly and others (1988, appendix I). Most of them relate to imports of textiles and clothing under the Multi-Fibre Agreement but automobiles, footwear, and some agricultural products have also been included. Trade with state trading countries is governed by special rules that permit the maintenance of national quotas.
its trade partners. Exchange rate volatility has been a powerful influence in the growth of nontariff barriers in Europe.

Two factors give grounds for optimism that the direction of change in Community trade policy will be in a positive direction. First, the cost of protection to the European consumer is widely recognized. It can be substantial for many sectors. The Common Agricultural Policy has raised Community food prices and absorbs 65 percent of the Community's budget. The annual cost per job protected in the United Kingdom as a result of voluntary export restraint was estimated to be £13,000 for clothing in the early 1980s (Digby, Smith, and Venables 1988; Greenaway and Hindley 1985). Research in other countries shows costs of a similar order of magnitude for heavily protected sectors. Second, more important than the cost of protection is the fear of the cost of an all-out trade war that individual cases of nontariff barriers might provoke. Considerations such as these will strengthen the Community's resolve to achieve a successful outcome of the Uruguay Round.

References

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This paper discusses the implications of European Community (EC) commercial policy on specific groups of developing countries, namely:

- ACP countries—six developing countries from Africa, the Caribbean, and the Pacific that have signed the Lomé Convention;
- Mediterranean countries—12 Mediterranean countries that have signed bilateral cooperation agreements, including three Maghreb countries, Algeria, Morocco, and Tunisia;
- newly industrializing countries and economies (NICs)—Hong Kong, the Republic of Korea, Singapore, and Taiwan.

This analysis of the implications of 1992 for the three groups of economies will consider three major elements:

- each group's specific economic relations with the EC;
- the evolution of trade relations between the three groups and the EC in the last 25 years;
- the likely changes in the Community's external trade policy beginning in 1993 and the implementation of the single market.

Community Development Policy and Economic Relations with the Developing Countries

The Community's development policy goes beyond the development of its members. It is a permanent search for a more even distribution of wealth and well-being throughout the world and an attempt to maintain some specific solidarities.

While decolonization dismantled the historical north-south economic groupings, the association between some countries and the EC was going against this trend and was new in many ways: the legal basis, economic goals, political meaning, geographic scope, and so on.

The four principles of the Community's development policy were stated at the European summit meeting on October 19–20, 1972, in Paris:

The Community, conscious of the problem raised by the persistent under-development of some parts of the world, affirms its willingness to increase, within the context of a global policy towards developing countries, its aid and co-operation efforts towards the poorest people, while taking account of the concerns of the countries towards which geography, history and Community commitments create specific responsibilities.
This means that the Community's aims were
- to elaborate a global policy;
- to reorganize some European production and exchange structures;
- to organize a new type of dialogue with the developing countries;
- to establish preferential cooperation based on regions.

Thus, on the one hand, the Community's objectives were to enter into regional cooperation with a trade element, a financial and technical assistance scheme, and an institutional framework, and on the other hand, the Community put forward a worldwide policy essentially limited to modifications of the trade policy. Therefore, the fear of discrimination expressed by the developing countries that were not associated with the EC in a regional structure is understandable.

The regional approach to external relations and development policy creates several groups of developing countries, among which the ACP states and the Mediterranean countries are the two major ones. The problem with analyzing the EC's relationship with groups of developing countries is that even within specific regions (for example, the Mediterranean), economic structures and levels of development vary. These structural differences affect the nature, the intensity, and the dynamism of the relations between each developing country and the EC. Beyond the contrast between social and political regimes, development models, historical evolution, the diversity of human resources, and the endowment of natural resources explain the large differences in countries' relative wealth and level of economic development within regions. Some states face the problem of a rapidly growing population, while others have a small population; some have launched industrialization policies with diverse results; others have not yet reached the first step of industrial production and economic take-off.

Despite these differences, we will attempt to analyze the implications of the European single market with respect to the three groups of developing countries and economies described earlier. To be able to evaluate the implications of the 1992 changes, a necessary first step is to examine the countries' economic relations with the EC and the evolution of these relations during recent decades.

Of the three groups, relationships with the ACP and Mediterranean countries were created through the establishment of preferential relations that the EC has established with some parts of the developing world within the framework of its external economic relations policy and the regionalization of its development policy. The relationship with the NICs, however, is different. It does not fall within the framework of specific EC external economic relations. It is the result of the structural changes that have affected some developing countries during the past 30 years. These countries have chosen outward-looking development models and, by using their comparative advantage, were able to increase their shares in world production and exportation of some industrial goods. They became competitive on a world scale, which changed the nature of their relations with the EC, as well as their evolution prospects from 1992 on.

The ACP Group

Part IV of the Treaty of Rome set the basis for a Community development policy. An implementation convention provided for the EC's association with its member states' former colonies. The same convention established the European Development Fund, which gives the Community the necessary resources for its financial and technical cooperation with developing countries.

Since 1960, many former overseas territories, particularly in Africa, have become independent. Creating new cooperation relations between the Community and the 18 African and Malagasy associated countries became necessary. This is why the First Yaoundé Convention, signed in 1963, created new cooperation relationships valid for five
years. The Second Yaoundé Convention extended the cooperation for five more years. These conventions were based on recognition of the signatories' national sovereignty.

With the 1973 enlargement of the European Community, the EC's development policy had to be extended to the former British colonies. In 1975, the first Lomé Convention was signed to cover the period from April 1976 to December 1980. The second convention followed, and the third Lomé Convention came into force in May 1986 and expired at the end of February 1990. It establishes a link between the EC and ACP states, including all the independent Sub-Saharan countries. The convention establishes institutions: the Council of Ministers and the Committee of Ambassadors. For their part, the ACP states have created an administrative structure that relies on a general secretariat located in Brussels.

Thus, the cooperation between the ACP states and the EC is a long-term one. It has been working for nearly 30 years and the number of countries involved has risen from 18 to 66. However, in many ways this large group of African, Caribbean, and Pacific states is a very heterogeneous group. It includes Nigeria, with its population of over 100 million people and large oil resources, as well as Tuvalu, whose 10,000 inhabitants are spread over several hundred atolls in the Pacific Ocean. Nearly half the ACP countries are microstates whose resources and development levels are very low. Most of them belong to the category of the least-developed countries.

The ACP-EC cooperation arrangements are constantly being increased and diversified: industrial cooperation, a scheme to stabilize export earnings, aid to mining systems, aid to rural development, food aid, and so on have been added to the original financial aid and trade preferences.

All these specific elements of the ACP-EC cooperation will not be affected by the 1992 European single market. This cooperation will carry on for the years 1990–95 under the fourth Lomé Convention. Will that be enough to enable the ACP countries to use the opportunities of the 1992 European market?

**The Mediterranean Countries**

Since the admission of Greece, Spain, and Portugal, the EC has become a Mediterranean power that covers most of the northern shores of the Mediterranean. Beyond this evolution of the Community, the EC is closely interdependent with all the Mediterranean countries for historical, political, economic, and strategic reasons. The desire to establish a preferential regional cooperation policy in this area has been one of the bases of the Community's external relations policy. The 1972 Paris summit underlined the importance for the Community to put into force its commitments toward the Mediterranean countries with which agreements have been signed or will be concluded, these agreements being the subject of a global and balanced approach.

To rationalize the Community's commitments while taking account of its specific needs, in October 1972 the commission proposed a policy that would be limited to the coastal states (plus Portugal and Jordan) and would pursue a single goal, namely, a free trade area for industrial goods to be reached within a flexible time-scale. Regarding agriculture, it recommended ad hoc concessions; regarding manpower, it recommended that what had been achieved on a bilateral basis be harmonized at the Community level. Finally, it asked for the implementation of a financial cooperation policy.

The first set of negotiations with the three Maghreb states led to the signing in April 1976 of agreements that implement the principle of a global cooperation policy with no limits on duration, but subject to periodic reviews. These agreements combine technical and financial cooperation actions: trade assistance, industrial cooperation promoting contacts between economic agents, acquisition of patents, private investments of mutual interest, scientific and technical cooperation, and financial assistance in loan form. In the field of trade, they provide free access for certain raw materials and industrial products; for agricultural produce, tariffs were reduced by 20 to 100 percent depending on the item. The principle of reciprocity was dropped; the three countries merely consolidate the preferences
granted to the EC, without prejudice for their development needs. Regarding manpower, the principle of equality of treatment with European workers was granted.

Parallel negotiations with Israel led to the conclusion of a preferential agreement signed in 1975, which was supplemented in 1977 by two protocols that provide for financial aid and industrial and technological cooperation, rendering this agreement similar to those with the Maghreb countries. Further negotiations led to the signing of similar agreements with the Arab Republic of Egypt, Jordan, and Syria in 1977. An agreement with Lebanon could only be signed later that year because of political troubles. A new set of financial protocols signed in 1982 (ECU 489 million for Maghreb countries and ECU 486 million for Mashreq countries) reveals a stagnation of the aid provided and an increase of the share of European Investment Bank (EIB) loans.

In 1987, to take into account the consequences of the last enlargements, the EC signed new protocols with most of the Mediterranean countries, which sought to permit the maintenance of the traditional flows of exports from these countries to the EC, in accordance with the declaration adopted by the Council of Ministers on March 30, 1985. The third generation of financial protocols provided for financial resources totaling ECU 1,618 million, 59 percent more than in the expired protocols.

With the former Yugoslavia, a socialist but nonaligned country, the EC has concluded nonpreferential commercial agreements (May 19, 1970, and June 26, 1973). A cooperation agreement signed in April 1980 came into force on April 1, 1983. Set for an unlimited period, it institutes cooperation schemes in such fields as industry, agriculture, energy, science, technology, and tourism. On December 21, 1987, the Council of Ministers approved the conclusion of protocols whose purposes are to set a more favorable trade regime; a financial protocol increases the EIB loans from ECU 200 to ECU 550 million.

Regarding Turkey, an association agreement was signed in September 1963. This agreement foresaw Turkey's ability to join the Community. It is the only association agreement that mentions this goal (Bourrinet 1989). Three stages were defined for the evolution of this association scheme: a 5-year preparatory stage designed to strengthen the Turkish economy, a 12-year (extendable to 22 years) transitory stage, and a final stage starting in 1995.

An additional protocol was signed in Brussels in 1970 and came into force in September 1971 that indicated Turkey's entry into the transitory period. It provides for the immediate removal of quotas and tariffs by the Community on industrial goods and the progressive abolition of tariffs by Turkey to be achieved by January 1, 1995. The implementation of this plan faced many obstacles, among them:

- the free circulation of workers, due to be achieved by December 1, 1986;
- the ECU 600 million commitment set out in the fourth financial protocol;
- the free access on the Community market for some sensitive Turkish exports;
- the abolition of tariffs by Turkey on Community imports;
- the alignment of the Turkish tariff at the Community's single level.

These drawbacks in the achievement of the association explain the option the Turkish government took in 1987: to give up any reference to the 1963 association agreement and to apply for membership on the basis of Article 237 of the Treaty of Rome.

The Community concluded specific agreements with both Cyprus and Malta. Albania and Libya are the only Mediterranean countries that did not sign a cooperation agreement with the EC.

The evolution of relations between the EC and the Mediterranean countries differed from that with the ACP states. The preferential relations between the Mediterranean states and the EC did not lead to a global negotiation nor to an institutional gathering of these

---

1. The Mashreq countries are Egypt, Jordan, Lebanon, and Syria.
countries. Instead of one global convention (the Lomé Convention), there is a set of distinct and parallel agreements between the EC and each Mediterranean country. Nevertheless, these agreements have some common features:

- **Duration.** Most of the agreements are for five years or for an unlimited period but completed by five-year financial protocols, except for the smallest countries where protocols are for three or four years. Such a duration is a medium-term guarantee and is of great interest in the areas of trade and financial resources.

- **Globality.** The agreements include trade, financial, and technical provisions. European financial resources are generally more important for the poorest countries.

- **Trade regime.** The Community preferences are nonreciprocal. The actual opening of the EC markets to the exports from the Mediterranean countries is subject to the progress achieved in the common policies or to the sensitivity of the Community's economic sectors that are affected by the imports.

Therefore, despite the number of agreements between the EC and the Mediterranean countries, the main features of these agreements define the Mediterranean countries as a specific category within the EC’s external relations.

**The NICs**

The emergence of the NICs in world trade is the consequence of the fast industrialization of some developing countries that since the beginning of the 1960s have pursued outward-looking growth policies by a better use of their comparative advantages.

Indexes, which identify NICs, generally concern the growth of their share in world production and exports of manufactured goods (OECD 1979). At first the Organization for Economic Cooperation and Development (OECD) showed interest in the consequences of the emergence of a new category of partners in international trade. In 1979, the OECD general secretary stressed that the changes in the structure of industrialized countries, trade resulting from the emergence of new competitors concerned a small amount of products. Subject to change in some sectors and implementation of appropriate policies, this emergence was regarded as bringing large reciprocal advantages.

The changes in the international exchange structures were due to provide industrialized countries with a decrease of the real price of consumer goods, a strong incentive to increase productivity, a reduction of domestic inflation, and fast-growing new markets. The NICs were expecting faster growth of investment and real income and increased exports earnings.

This optimistic analysis about the emergence of the NICs in international trade does not seem to fit the current situation. The changes in the exchange structure, which were at first concentrated on just a few products, then concerned a larger number of sectors. The number of NICs increased. Being linked to the growth rate of production and to the strong dynamism of these countries in the field of export, the NICs’ international competitiveness increased more than expected.

However, the relative decrease of production and trade in the 1980s in several industrialized countries reflected the negative effects on employment and economic activity created by foreign competitors' products, whether from industrialized countries or developing countries. Sectoral issues deepened the difficulties linked to the emergence of NICs in world trade.

Under these circumstances, many industrialized countries could not apply positive adjustment principles that stress the implementation of compatible policies matched by an efficient allocation of resources. They were thwarted by rigid structures, and the issues at stake could not be solved (Judet 1981).
Indeed, most international trade flows were directly or indirectly affected by the emergence of the NICs. The external trade of the world’s first trading power, the Community, is particularly sensitive to this evolution.

There are no suitable quantitative criteria by which to define a significant group of NICs. The concept of NICs, which became very popular in economic writings during the 1980s, does not seem precise enough today to identify a homogeneous category of actors in international trade. International organizations were very discrete in dealing with this issue. GATT and the OECD never established an official list of NICs. The United Nations Conference on Trade and Development (UNCTAD) index, which separates the major developing countries that export manufactured goods from other NICs, is subject to changes. In 1981, the World Bank gave up a former distinction based on the concept of semi-industrialized countries. Finally, while the IMF uses the concept of “major developing countries exporting manufactured goods,” it does not have precise definition criteria.

Making a homogeneous group whose number varies depending upon the definition used, competitive developing countries may be defined in respect of a given analysis framework.

The dividing line between the advanced industrial countries and the NICs is always fluctuating. Countries make up a “dynamic continuity” in the development process, according to an OECD expression. They become competitive countries on the world market for some products, but this position may be weaker or stronger at different times according to the evolution of the national production structures, the competition situation on the world market, technological changes, and so on.

During the 1960s, a first group of developing countries emerged on the basis of the very high growth rates of their domestic production and their exports (more than 12 percent per year in constant U.S. dollars for exports). This group consisted of four South Asian economies (Hong Kong, Korea, Taiwan, and Singapore), four south European countries (Greece, Portugal, Spain, and Yugoslavia), and two Latin American countries (Brazil and Mexico).

A second wave of developing countries exporting manufactured goods appeared during the 1970s. This group included Argentina, India, Indonesia, Macao, Malaysia, Mauritius, Morocco, the Philippines, and Tunisia. Some of them appear as crossroads between the first NICs and the industrialized markets. In fact the first NICs have delocalized or subcontracted some activities within the framework of developing world multinational cooperation (Mucchielli 1987). Such a strategy promoted the development of south-south trade, but at the same time it increased the export capacity of more developing countries, which in turn became competitive on the world market.

Taking into account the dissimilarity and instability of the NICs’ group, we will only consider here the four Asian “dragons” (Hong Kong, Singapore, Taiwan, and Korea). Among all the developing economies, since the 1960s these have been the most successful in using their comparative advantage to promote world market industrialization. From this point of view they make up the most significant sample of NICs in today’s world economy and, therefore, are the EC’s most dynamic trade partners.

**The Evolution of Trade Relations, 1962–88**

Of the three groups we are considering, the evolution of trade relations has been related mainly to trade regimes and international specialization and competitiveness.

**Trade Differentiation**

Given the diversity of third countries, differentiating the EC’s trade regime vis-à-vis the outside world by groups is necessary (Molle and Van Mourik 1987). For ACP and
Mediterranean countries, historical and political reasons reinforce these differentiations. Through the hierarchy of trade relations, the ACP countries seem to enjoy the most favored trade regime, while the NICs are in the least favorable position.

**ACP COUNTRIES’ TRADE REGIME.** Tariff preferences are fairly generous for ACP countries in the Lomé Convention system. Almost all their exports have access to the EC market free of any tariff or quota. In that sense, the ACP countries enjoy a better regime than the other developing countries, which are sometimes subject to formal and informal quantitative restrictions (tariff preference quotas). However, access is granted only for goods for which more than 50 percent of the value added can be shown to originate in the country itself, in other ACP countries, or in an EC country. The tariff preferences are nonreciprocal, but EC exports to ACP countries have the same favorable treatment that is allowed to the most favored developed country.

The special treatment of products coming under the Common Agricultural Policy involves a reduction of the levies that the EC imposes on many agricultural imports. Although imports are not unrestricted, the quotas are applied in a relatively liberal way (Molle 1989).

**MEDITERRANEAN COUNTRIES’ TRADE REGIME.** Three kinds of trade agreements have been concluded between the EC and Mediterranean countries:

- A free trade agreement with Israel on the principle of full reciprocity.
- Through cooperation agreements concluded with Maghreb countries (Algeria, Morocco, and Tunisia), Mashreq countries (Egypt, Jordan, Lebanon, and Syria), and Yugoslavia, the trade provisions are in the form of a one-way preference scheme. These Mediterranean countries have tariff-free access to the EC market for industrialized goods, while the EC has settled for a most favored national treatment of EC goods on the home markets of these countries. For some sensitive goods, the imports into the EC are limited by quotas or import ceilings.
- In the case of association agreements, possibly leading to full EC membership, concluded with Cyprus, Malta, and Turkey, these countries have obtained tariff-free access to the EC for manufactured goods. As these agreements aspire to a full-fledged customs union, the EC requires in principle full reciprocity. That proved too hard a condition for Cyprus and Malta, so that the next stage of the association has been postponed for them. The same applies to Turkey, where progress was also blocked by political problems.

The advantages of a trade agreement with the EC should not be overestimated: for limited quantities these countries already had tariff-free access by their Generalized System of Preference (GSP) status. Note, however, that the EC has imposed various nontariff barriers, mainly in the form of so-called voluntary export restraints by exporting countries, on the most competitive Mediterranean countries. For textiles, many controls come under the Multi-Fibre Agreement (MFA) negotiated between the EC and the principal textile-exporting developing countries. The latter have agreed to voluntary restriction of their textile exports to the EC.

**NICs’ TRADE REGIME.** NICs have the least favorable preferential regime on the EC market. In principle, they can benefit from the GSP. The European GSP scheme offers a tariff preference: in general, goods coming under the GSP are imported into the EC tariff free, whereas non-GSP countries face the full common external tariff. Access is mostly limited to certain quantities, beyond which the full tariff is applied. There is no reciprocity; EC exports to GSP countries receive most favored nation treatment.

The GSP is confined to semimanufactured and manufactured goods. For certain sensitive goods, it is sometimes limited to fairly restricted quotas. A critical look at the product structure reveals that the products that are of most interest to GSP countries receive
the least benefits; they tend to be the products from sectors for which the pressure to protect European production is heaviest.

The GSP is, in principle, available to all developing countries, but the EC has specified those to which it is prepared to give GSP status. In practice, the European GSP scheme has developed into a highly complicated and selective arrangement. Indeed, the trade advantages are differentiated according to the level of development of the country involved. Because of these practices the four NICs cannot obtain a truly preferential regime for their main exports to the Community, but is this actually important? Some studies (Langhammer and Sapir 1987) found that the trade effects of the European GSP scheme were inconclusive and that the aid equivalent to the tariff preferences was almost negligible as a consequence of the multitude of controls governing sensitive products. The evolutionary pattern of EC market shares for the four developing countries leads us to the same conclusion. This is a very important feature for 1992 prospects.

The Evolution of Community Market Shares among the Three Groups of Developing Countries

The general trends shown by trade data from 1962 to 1988 (tables 2-1 to 2-4) are very clear and sharply different for the three groups of developing countries:

- collapse of ACP countries,
- stability of the Mediterranean countries' positions,
- impressive and continuous breakthrough by the NICs.

Table 2-1. Changes in Developing Countries' Shares of EC Exports, 1962–88 (percent)

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<tbody>
<tr>
<td>ACP (66 countries)</td>
<td>8.9</td>
<td>7.5</td>
<td>7.4</td>
<td>7.9</td>
<td>5.1</td>
<td>4.1</td>
<td>4.2</td>
</tr>
<tr>
<td>Mediterranean countries (12 countries)</td>
<td>10.0</td>
<td>10.3</td>
<td>14.1</td>
<td>13.4</td>
<td>11.7</td>
<td>10.1</td>
<td>9.7</td>
</tr>
<tr>
<td>of which Algeria, Morocco, Tunisia</td>
<td>3.7</td>
<td>2.8</td>
<td>4.1</td>
<td>3.9</td>
<td>3.3</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>NICs (4 countries)</td>
<td>1.7</td>
<td>2.1</td>
<td>2.0</td>
<td>2.7</td>
<td>3.5</td>
<td>4.4</td>
<td>5.4</td>
</tr>
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</table>

Source: EUROSTAT.

Table 2-2. Changes in Developing Countries' Shares of EC Imports, 1962–88 (percent)

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<tbody>
<tr>
<td>ACP (66 countries)</td>
<td>8.8</td>
<td>8.9</td>
<td>7.3</td>
<td>7.3</td>
<td>7.5</td>
<td>4.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Mediterranean countries (12 countries)</td>
<td>8.0</td>
<td>9.4</td>
<td>7.5</td>
<td>8.3</td>
<td>10.9</td>
<td>8.6</td>
<td>7.7</td>
</tr>
<tr>
<td>of which Algeria, Morocco, Tunisia</td>
<td>4.1</td>
<td>2.4</td>
<td>2.7</td>
<td>2.5</td>
<td>3.8</td>
<td>2.6</td>
<td>2.2</td>
</tr>
<tr>
<td>NICs (4 countries)</td>
<td>0.9</td>
<td>1.5</td>
<td>2.4</td>
<td>3.5</td>
<td>3.5</td>
<td>6.0</td>
<td>6.3</td>
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Source: EUROSTAT.
### Table 2-3. Changes in Developing Countries' Shares of EC Manufactured Goods Imports, 1962–87 (percent)

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</thead>
<tbody>
<tr>
<td>ACP (66 countries)</td>
<td>6.6</td>
<td>6.5</td>
<td>2.8</td>
<td>1.9</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Mediterranean countries (12 countries)</td>
<td>2.1</td>
<td>2.7</td>
<td>3.2</td>
<td>3.8</td>
<td>5.0</td>
<td>5.6</td>
</tr>
<tr>
<td>of which Algeria, Morocco, Tunisia</td>
<td>0.4</td>
<td>0.3</td>
<td>0.4</td>
<td>0.7</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>NICs (4 countries)</td>
<td>1.7</td>
<td>2.1</td>
<td>3.8</td>
<td>8.6</td>
<td>8.1</td>
<td>10.8</td>
</tr>
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<sup>a</sup> SITC 6 + 7 + 8: manufactured goods, machines, transport equipment.

*Source: EUROSTAT.*

### Table 2-4. Changes in Developing Countries' Shares of EC Food and Beverages, Raw Materials, and Mineral Fuels Imports, 1962–87 (percent)

#### Total extra-EC imports<sup>a</sup>

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<tr>
<td>ACP (66 countries)</td>
<td>11.4</td>
<td>13.4</td>
<td>14.4</td>
<td>16.7</td>
<td>18.9</td>
<td>17.2</td>
</tr>
<tr>
<td>Mediterranean countries (12 countries)</td>
<td>12.3</td>
<td>9.2</td>
<td>6.1</td>
<td>6.9</td>
<td>7.7</td>
<td>8.4</td>
</tr>
<tr>
<td>of which Algeria, Morocco, Tunisia</td>
<td>7.0</td>
<td>3.9</td>
<td>2.1</td>
<td>1.9</td>
<td>1.9</td>
<td>2.1</td>
</tr>
<tr>
<td>NICs (4 countries)</td>
<td>0.3</td>
<td>1.0</td>
<td>1.1</td>
<td>1.1</td>
<td>0.8</td>
<td>1.0</td>
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<tbody>
<tr>
<td>ACP (66 countries)</td>
<td>12.6</td>
<td>12.4</td>
<td>11.8</td>
<td>9.5</td>
<td>9.7</td>
<td>8.8</td>
</tr>
<tr>
<td>Mediterranean countries (12 countries)</td>
<td>6.6</td>
<td>5.7</td>
<td>6.0</td>
<td>5.0</td>
<td>6.0</td>
<td>5.1</td>
</tr>
<tr>
<td>of which Algeria, Morocco, Tunisia</td>
<td>2.9</td>
<td>1.8</td>
<td>3.1</td>
<td>2.0</td>
<td>1.9</td>
<td>1.4</td>
</tr>
<tr>
<td>NICs (4 countries)</td>
<td>0.7</td>
<td>0.6</td>
<td>0.4</td>
<td>1.0</td>
<td>0.7</td>
<td>0.7</td>
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</thead>
<tbody>
<tr>
<td>ACP (66 countries)</td>
<td>3.1</td>
<td>6.0</td>
<td>7.5</td>
<td>10.1</td>
<td>12.8</td>
<td>7.8</td>
</tr>
<tr>
<td>Mediterranean countries (12 countries)</td>
<td>15.0</td>
<td>31.8</td>
<td>14.2</td>
<td>16.1</td>
<td>24.3</td>
<td>21.7</td>
</tr>
<tr>
<td>of which Algeria, Morocco, Tunisia</td>
<td>8.5</td>
<td>7.2</td>
<td>5.3</td>
<td>5.2</td>
<td>10.0</td>
<td>8.4</td>
</tr>
<tr>
<td>NICs (4 countries)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.3</td>
</tr>
</tbody>
</table>

*Source: EUROSTAT.*

**The ACP Countries' Collapse.** The economic collapse of the ACP countries, since it affected the ACP's share in extra-EC exports (from 8.9 percent to 4.2 percent between 1962 and 1988, table 2-1) and extra-EC imports (from 8.8 percent to 4.5 percent from 1962 and 1988, table 2-2) had a global effect. The loss is particularly clear in the exports of manufactured goods to the Community market (from 6.2 percent in 1962 to 1.5 percent in
The only sectors among extra-EC imports where the ACP countries improved their relative share are foods, beverages, and mineral fuels. However, food is of little importance for the EC. Regarding mineral fuels, most ACP countries' exports come from Nigeria.

The ACP countries' rigidity and inability to adapt their export structure to the changing international demand explains their losses on the Community market. ACP country exports consist mostly of agricultural raw materials and minerals. Manufactured goods account for less than 10 percent of their total. Thus the countries are very dependent on the world market prices of raw materials. They are encountering increasing competition from Asian and Latin American countries in farming products. Finally, the ACP countries are in a poor position to respond to the developed countries' new economic growth. This growth is now more parsimonious and relies less on imported energy supplies and raw materials. For example, technological evolution in foodstuff entails a structural diminution of the demand for coffee and cocoa. This new economic growth is no longer based on industry, but on the development of the service sector, a sector in which the ACP countries have little to offer.

On the whole, the relative position of the ACP countries compared with that of the two other groups has deteriorated during the past 25 years, particularly since the early 1980s. In 1988, the 66 ACP states were clearly a smaller group than the 12 Mediterranean countries or the 4 NICs in terms of EC imports and exports (tables 2-1 and 2-2). The evolution of the ACP's relative share of EC manufactured goods imports indicates the extent of the fall (table 2-3). In 1962, the relative share of the 66 ACP countries was three times that of the 12 Mediterranean countries and four times that of the four NICs. In 1987, the relative share of the Mediterranean countries was nearly four times that of the ACP, and the relative share of the NICs was more than eight times that of the ACP countries.

Stability of the Mediterranean Countries' Position. Between 1962 and 1988, the Mediterranean countries maintained their relative global positions in terms of EC imports and exports (tables 2-1 and 2-2). Thus, this group of countries remains an important trading partner that absorbs around 10 percent of the EC's total exports, and up to 14 percent when raw material prices (including oil) are high. This group accounts for about 8 percent of the annual increase in EC imports.

From a sectoral viewpoint, note the increase of the Mediterranean countries' relative share of mineral fuels extra-EC imports, and a decrease in raw materials and food and beverages (table 2-4). But the significant change appears to be the continuous and steady growth of the Mediterranean countries' relative share in manufactured goods extra-EC imports (table 2-3). It demonstrates the permanence of a close economic interdependency between these countries and the EC. The Community remains the major export market for all the Mediterranean countries.

Because of their limited size or the low standard of living, most of these countries do not enjoy a domestic market that can absorb modern industrial production. The export market is mostly the EC, since trade between Mediterranean countries is very limited (for example, 3 percent among Maghreb countries). Therefore, Community trade preferences and the effective opening of its market are essential for the industrial development of the Mediterranean countries. But restraints on the opening of this market, as in the cases of the agricultural or industrial "sensitive products," particularly the so-called voluntary export restraints, have affected the EC's credibility as a preferential trade partner of the Mediterranean countries.

Issues Specific to Maghreb Countries. Within the Mediterranean countries' group, the three Maghreb countries (Algeria, Morocco, Tunisia) are more interdependently linked to the EC and, therefore, more sensitive to 1992 single-market perspectives. This is particularly true for trade, migration, and even the location of investment.
Regarding trade, table 2-5, which shows the evolution of Maghreb external trade between 1970 and 1984, reveals two essential points.

- Despite a 10 percent decrease between 1970 and 1984, the EC clearly remains the main trading partner of Maghreb countries. Since 1984, the EC's relative share has been stable at 58 percent of Maghreb imports and 68 percent of Maghreb exports.
- The Maghreb countries' attempts to reorientate their external trade to the United States, other Arab countries, or Maghreb neighbors did not significantly reduce the EC's supremacy. The development of trade with the United States seems to be mostly due to fluctuations in the oil market. The development of trade with the Arab League countries only affects Maghreb imports and remains limited (7.0 percent of total trade in 1984, against 2.5 percent in 1970). Finally, despite a strong desire for Maghreb unity, inter-Maghreb trade became even more residual, amounting to 1 percent for imports and for exports (Bourrinet 1985).

Table 2-5. Maghreb External Trade, 1970-84, Selected Years
(ECU thousands)

<table>
<thead>
<tr>
<th>Imports and exports</th>
<th>World</th>
<th>World less Intra-Maghreb trade</th>
<th>Intra-Maghreb trade</th>
<th>Arab League states less intra-Maghreb trade</th>
<th>Total Arab League</th>
<th>EC12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports from</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>2,246,018</td>
<td>2,206,913</td>
<td>39,102 (1.77)</td>
<td>15,617 (0.71)</td>
<td>54,777 (2.48)</td>
<td>1,506,377 (68.25)</td>
</tr>
<tr>
<td>1975</td>
<td>7,920,286</td>
<td>7,877,785</td>
<td>62,488 (0.79)</td>
<td>211,784 (2.69)</td>
<td>274,282 (3.49)</td>
<td>5,081,323 (64.66)</td>
</tr>
<tr>
<td>1980</td>
<td>12,807,810</td>
<td>12,752,268</td>
<td>55,539 (0.43)</td>
<td>851,769 (6.67)</td>
<td>907,308 (7.11)</td>
<td>8,283,501 (64.72)</td>
</tr>
<tr>
<td>1984</td>
<td>21,876,112</td>
<td>21,714,528</td>
<td>161,560 (0.75)</td>
<td>1,548,417 (6.20)</td>
<td>1,509,972 (6.94)</td>
<td>12,906,905 (58.07)</td>
</tr>
</tbody>
</table>

Exports to

| 1970                | 1,679,390 | 1,642,468                  | 36,925 (2.24)      | 31,650 (1.93)                              | 68,575 (4.17)    | 1,285,923 (78.29) |
| 1975                | 5,331,042 | 5,271,097                  | 59,945 (1.13)      | 61,183 (1.15)                              | 121,128 (2.29)   | 3,196,280 (60.63) |
| 1980                | 14,245,751 | 14,196,048                 | 49,723 (0.35)      | 77,343 (0.54)                              | 127,066 (0.89)   | 6,957,504 (49.01) |
| 1984                | 20,065,024 | 19,889,808                 | 175,203 (0.88)     | 264,621 (1.33)                            | 439,824 (2.21)   | 13,433,289 (67.54) |

Note: The figures in parentheses are the percentages of total world trade, less intra-Maghreb trade.

Trade liberalization measures between the Maghreb countries, now stopped by political tensions, were either thwarted by national administrative measures, or "purely and simply put in the oubliettes" according to an Algerian expert’s words.

While the Maghreb countries have wanted regional integration for many years, for more than 20 years this goal has faced major obstacles: Maghreb countries’ individual economies are not complementary, political options are often conflicting, economic development models are quite dissimilar, and inter-Maghreb trade is marginal. Their economies continue to be dependent on the developed, particularly EC, countries in the trade, technological, and financial spheres.

These external constraints, particularly the dependency on the EC, are sometimes described as major obstacles to Maghreb economic integration. However, such a view underestimates the internal handicaps that Maghreb integration faces and that the Arab Maghreb Union, created in February 1989, will have to address.

Regarding the Maghreb countries’ position within EC external trade, note that its evolution between 1962 and 1988 is less positive than that of the Mediterranean countries as a whole. The EC trade share of the latter remained stable in 1988 for extra-EC exports (10
percent of the total amount), but the Maghreb countries' relative share fell from 4 percent to
2 percent for both extra-EC imports and exports (tables 2-1 and 2-2).

The slowdown, and for some countries the prohibition, of Maghreb workers' immigration to the EC has exacerbated the countries' employment difficulties. The strength of the demographic pressure that affects them (between 1950 and 1980 the population doubled and it will double again between 1980 and 2010) is the result of the persistence of traditional behaviors coupled with decreased mortality. The consequence is rapid growth of the working population (table 2-6), and strong pressure on the labor market in countries where those under 15 account for nearly 45 percent of the total population. Underemployment, a major issue for the past two decades, is becoming an increasingly difficult issue. The growth in population has aggravated the challenges the countries face, and since the early 1980s, the fall of some raw materials' prices and the tightening of financial constraints have affected the prospects for development. Algeria's case is significant. According to the UN, while the working population increases at the rate of 180,000 people a year, the rate of creation of new jobs fell from 140,000 a year in the early 1980s to 110,000 in 1987. The current rate of unemployment is close to 25 percent of the working population.


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>3.3</td>
<td>3.6</td>
<td>3.8</td>
<td>3.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Morocco</td>
<td>3.5</td>
<td>3.3</td>
<td>3.2</td>
<td>3.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Tunisia</td>
<td>3.7</td>
<td>3.1</td>
<td>3.1</td>
<td>2.7</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: ILO (1986).

Facing such an economic and demographic imbalance, Europe must realize what its responsibility is. The high level of unemployment that has affected Europe since 1975 has not only caused European countries to stop emigration from North Africa, but has also led to a protectionist attitude against goods coming from those countries. Today, the financial situation of the Maghreb countries, with their almost insupportable debts and the demographic and economic contrasts between the northern and southern shores of the Mediterranean Sea, mean that Europe cannot much longer remain closed to the south's products and workers. If the difficulties in the North African labor market persist, and if the gap between the European and North African standards of living deepens, the migration pressure will be very strong.

The best way to ease this migration pressure lies in the creation of jobs in the country of origin. One solution is the promotion of direct European investments in these countries, since such money transfers will not add to the countries' financial difficulties. Some of these investments may promote the production of goods for the domestic market, but some will have to go to the export sector so that export earnings will be available to repay debts and pay for imports. At the same time, European markets will have to be more open to North African goods, but the position of North African countries on these markets remains unpredictable. They will have to compete with EC member states and other developing countries and will have to meet the specifications of the European single market.

To date, the Maghreb industries' penetration of the EC market has been confined to some textile products. Subcontracting in the equipment sector is very limited and some traditional Maghreb activities (furniture, ceramics, leather products) have been unable to
penetrate the EC market. The reason for this failure lies in the specific difficulties that the Maghreb economies meet when exporting to the European market: inability to compete; lack of knowledge of demand, technical standards, and quality requirements; relatively small scale of production; and so on.

The NICs' breakthrough. In 1962, the four NICs were the weakest of the three developing country groups as far as EC external trade was concerned. They accounted for 1.7 percent of the extra-EC exports, compared with 8.9 percent for the ACP countries and 10 percent for the Mediterranean countries. Similarly, the relative share of the four NICs in total extra-EC imports was very small, 0.9 percent, and lower than that of the two other groups (8 percent for the Mediterranean countries, 8.8 percent for the ACP countries).

During 1962–87, the NICs' relative shares in EC external trade grew steadily, and rose sharply during 1985–88. From 1987 on the NICs' imports and exports from and to the EC made these countries bigger Community trade partners than the ACP countries. As far as extra-EC imports are concerned, the 1988 NICs' relative share was close to the Mediterranean countries' share, while in 1962 the Mediterranean counties' share was nine times that of the four NICs (tables 2-1 and 2-2).

The NICs' breakthrough is even more impressive in the manufactured goods sector (table 2-3). From 1962 to 1988, this group's relative share increased sixfold, while that of Mediterranean countries increased almost threefold and that of the ACP countries decreased to a quarter of its original level. The NIC's account for nearly 11 percent of extra-EC imports of manufactured goods; their relative share is nearly twice as big as that of the Mediterranean countries, which in turn is seven times larger than that of the ACP countries.

Expected Changes after 1992

The major changes following 1992 that might directly or indirectly affect economic relations between the EC and the three developing country groups will relate to the Community's external trade policy and structural changes owing to the single market.

Effects of Trade Policy Changes

The effects of trade policy changes will depend on the extent of European opening to third countries, and on the erosion of regional preferences.

'Fortress Europe' or a Europe Opened-Up to Third Countries? Two major issues have to be addressed in the context of the EC's trade policy after 1992.

- Will the Community enjoy a sufficient and effective autonomy within the world economic system to be able to maintain preferential relations with some developing country groups?
- What will the directions of EC trade policy be as a single market?

The preferential relations with Africa and the Mediterranean countries are part of the economic relations the Community has established with the rest of the world. In the 1993 perspective, the EC may not necessarily enjoy sufficient autonomy in its external relations to maintain effective regional preferences with its traditional partners—for example, the Mediterranean zone and the ACP countries.

If the Community is able to define not only an external trade policy, but also an international economic strategy by limiting the international competition's impact, it will be able to create a self-oriented Europe, not only in trade matters, but also in the industrial, monetary, and financial fields. In this way the Community could maintain the Mediterranean and African preferential zones that, since the 1960s, have been a constant element in its external relations policy.
However, given the evolution of the world economic structures, Community autonomy appears increasingly limited. This is the result of many factors:

- The EC is not independent enough of certain international monetary and financial phenomena. The ECU is a basis for a European currency, but is not yet technically or actually an international currency.
- In the fields of trade, industrial strategy, and financial restructuring, multinational corporations and international finance groups impose their policies on the Community, which does not always have the means to monitor the firms' world strategies.

The amount of autonomy the EC enjoys in the field of trade policy has also been greatly reduced. Because of the customs tariffs reductions resulting from GATT multilateral agreements of the past decades and the present Uruguay Round negotiations, the traditional tariff tools can only be of limited use. Moreover, the Community is encountering difficulties in defining the level of protectionism its external trade policy should include by 1992. In contradiction to the Treaty of Rome provisions, this policy has not been fully achieved. Member states still resort to exceptions to the common policy, particularly on the basis of Article 115 of the Treaty of Rome.

Regarding the future of the common trade policy, three options appear feasible:

- maintaining the present low level of protection,
- increasing protection against nonmember states (so-called Fortress Europe),
- reducing protection and abolishing the major European customs union discriminations between member states and third countries, with the latter granting effective reciprocity.

The first two options would enable the Community to maintain the preferential trade treatment granted to the ACP and Mediterranean countries. However, at the December 3, 1988, Rhodes EC Summit meeting, heads of state and government seem to have chosen option three.

Determined to strengthen and develop the role of the European Community and of its member-States in the international political and economic scene, in conjunction with all the other States and appropriate organizations,

And conscious that the achievement of the domestic market in 1992, which already brings a new dynamism in the Community economic life, will affect in the same way the political and economic role of the Community in the world.

The European Council re-affirms that the single market will bring benefit to the member-States of the Community as well as to the non-member States by guaranteeing a continuous economic growth. The domestic market will not be a closed one. 1992 Europe will be a partner, and not a "Fortress Europe." The domestic market will be a decisive factor which will contribute to a larger international trade liberalization according to the GATT principles aiming at reciprocal and mutually favourable agreements. Within GATT, the Community will continue to play an active role in the Uruguay Round, being determined to strengthen the multilateral trade system.

This option does not facilitate the preservation of the preferential relations with the ACP and Mediterranean countries. However, in mid-1988 in Tunis, Mr. Delores, President of the European Commission, declared: "Maghreb countries must consider that we will treat our friends with the appropriate considerations." This political declaration stressing the EC's determination to maintain preferential treatments in favor of the Mediterranean countries does not indicate what means will be used to meet this objective, but the traditional means offered by regionalism seem to have lost most of their efficiency.

Erosion of Regional Preferences. The regional preferences in favor of the ACP and Mediterranean countries, as practiced for more than 25 years, are no longer adapted to the
The Implications of EC Commercial Policy on Developing Countries

1992 perspectives. The loss of value of these preferences seems likely to accelerate if option three (better access to the EC market for all categories of countries) is enforced.

Since 1960, whenever the EC participated in multilateral agreements that reduced tariffs, the value of the ACP and Mediterranean preferences were directly affected. Such actions were numerous: Dillon Round, Kennedy Round, Tokyo Round, current Uruguay Round, and the Generalized System of Preferences. So the level of tariff protection of the EC is now very low, about 3.5 percent. For some imported products, the EC tariff is even nil or negligible. Moreover, the dispersion has become very narrow; the EC import tariff exceeds 20 percent only for a very few products. In this context, trade preferences for ACP and Mediterranean countries appear less and less adapted, less and less efficient. They tend to go below a threshold under which the incentive value and real advantage that they should bring to their beneficiaries have disappeared.

The disappearance of the real effect of regional preferences clearly contains the risk of the least-performing ACP and Mediterranean countries becoming marginal in their economic relations with the EC. This move, which has started since 1980, may accelerate after 1992.

For many observers, it will soon be necessary to renew the preferential cooperation tools between the EC and the ACP and Mediterranean groups, since agreements based on a regional trade preference meet these countries' development requirements less and less. In September 1988 in Madrid, during an ACP/EC Assembly meeting, Mr. Natali, former European commissioner in charge of development policy, recalled a basic truth: "The real problem with the EC/ACP trade does not lie in the access regime but in the ACP export capacity and competitiveness."

Most of the ACP belong to the category of the least-developed countries. Their export products are not diversified and the elasticity of the latter on the EC market is not sufficient to allow for a favorable trend in comparison with other international trade flows. The range of ACP exports if too narrow to allow them to take advantage of the potential of the EC market. Also, the level of flexibility of their production systems (ability of the national economy to adapt itself or to anticipate changes in international demand) in most cases remains very low.

Tariff policy does not enable major modification of these conditions. When developing countries are in a weak position on the Community market compared with their competitors whose economic activities are more diversified, such a handicap cannot be dismissed only by a tariff policy or through the creation of a free trade area.

**Effects of the Single Market**

Many structural changes and new rules are expected with the initiation of the 1992 European single market. Two changes may have a direct effect on the relations between the EC and the three developing country groups: accelerated growth of the Community economy and increased competition for the conquest of the EC market.

**Consequences of Faster EC Growth.** Various EC studies of the medium-term macroeconomic consequences of the establishment of the single market come to the conclusion that the integration of Community markets will ensure steady economic growth and enlargement of the market, leading to reduced costs and prices, which in turn will imply higher demand and production. The Cecchini Report (1988) mentions a major boost for economic activity, as estimates average GDP growth at 4.5 percent.

If this prediction turns out to be true, European demand for imports will be stimulated, but the exact changes will vary a great deal by sector and product. In principle, the three developing country groups should benefit from this increase in Europe's import demand. The most dynamic groups, countries, and firms—for example, those able to adapt themselves to the changes in demand, or especially those able to anticipate these changes—will be the beneficiaries of the new opportunities. NICs have already demonstrated their
outstanding capacity to adapt themselves to changing international demand. Thanks to the flexibility of local industry, they can rapidly accommodate quantitative and qualitative changes of the export demand.

Because of their geographic position, some aspects of specialization of their production system, and some types of subcontracting to European industry, the Mediterranean countries may hope to take part in the European large market dynamism. But because of the lack of diversification of their exports and of their poor international competitiveness, most ACP states will only be incidentally affected by the international consequences of the EC's accelerated economic growth.

**Consequences of Increased Competition.** The establishment of a European single market only provides companies with opportunities. To take advantage of these opportunities, companies and groups must adapt their industrial and financial structures to the new European market and reorientate their market strategies. Thus, one can observe large companies and groups restructuring in the Community. In the same way, the third countries' direct investment strategy is now accelerating. The major third countries, such as the United States, Japan, and Switzerland, are increasing their direct investments in the EC to anticipate the 1992 opportunities and protect themselves against possible European protectionism. Likewise, multinational corporations are also adapting their strategies in anticipation of increased competition on the European market.

Consequently, new forms of competition will appear that will affect products and industrial structures or international investments. Developing countries rarely participate in these restructurings, which will make it more difficult for their companies to gain access to the European single market. The small size of most developing country companies and the limited amount of resources at their disposal will make enforcing a new industrial, financial, and trade strategy adapted to the new size and new forms of competition in the 1992 European market very difficult.

**Conclusions**

The 1992 single market does not directly alter the preferential relations existing between the EC and the three developing country groups: the Lomé Convention will be implemented and the Mediterranean preferential agreements and GSP will still be enforced.

Nevertheless, some cooperation tools (especially the regional trade preferences) will soon be outdated or obsolete. The least-performing developing countries will then be in a marginal position on the Community market due to the directions of the Community common trade policy and to the structural changes affecting the European economy. This evolution, which began some 15 years ago, will accelerate in the context of the single market.

Thus, reshaping Community development policy will be necessary. Its main goals will probably be maintained, but some of its modalities will have to be completely renewed to keep it efficient in the context of a changing world economy.

**References**


AFRICAN PRIMARY PRODUCT EXPORTS TO THE
EUROPEAN COMMUNITY: PROSPECTS AFTER 1992

Alan Matthews
Trinity College, Dublin

Introduction

The purpose of this paper is to discuss how the prospects for African primary product exports to the European Community (EC) might be affected by the completion of the EC's internal market scheduled for the end of 1992. Primary products remain the single biggest component of Africa's exports to the EC, accounting for 85 percent of the total in 1987 (energy supplies alone accounted for 53 percent) (OECD 1989). Given the weakness in many primary product markets in recent years, African suppliers fear that the EC internal market program might exacerbate their difficulties. Successful completion of the EC's internal market will alter competitive conditions and conditions of market access for many primary products. While some of these changes carry threats to traditional market positions, others will create potential export opportunities. Thus, the paper's objective is to help identify the major changes expected and to suggest strategies to enable African exporters to take advantage of these changes.

Particularly in the case of primary products, however, examining the possible consequences of 1992 in isolation from other events and negotiations likely to affect access to the EC and other markets for primary product exports after 1992 would be myopic. The reform of the EC's agricultural policy, for example, which has been gathering momentum since 1984, has important implications for the Community's net trade position in agricultural products. The possible results of the Uruguay Round of GATT negotiations, particularly in the Negotiating Groups on Agriculture, Natural Resource-Based Products, and Tropical Products must also be considered. Finally, the impact on market access of the renewals of the Lomé Convention in December 1989, and of the EC's Generalized System of Preferences (scheduled for 1992)—particularly for processed primary products—must also be borne in mind.

For this reason, the paper is divided into two parts. The first section provides a quick summary of the state of play with regard to decisions and negotiations in the main parallel arenas, as well as an overview of the likely a priori effects of the 1992 program. The second section provides a more detailed analysis of selected aspects of the 1992 exercise. It focuses on the likely magnitudes of trade creation and trade diversion arising from faster EC growth and changes in the level of external protection. The concluding section considers possible policy responses by African countries.

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The joint authorship of Dermot McAleese of an earlier paper from which much material for this paper is drawn is acknowledged.
Factors Affecting the Trade Environment

This section first examines the way in which CAP reform, the GATT negotiations, and changes in the EC's preferential arrangements might affect market access for African primary products. It then outlines the main effects of the internal market program.

Reform of the Common Agricultural Policy

The regulations of the Common Agricultural Policy (CAP) provide some of the most extensive protection to production within the Community. This protection severely restricts, and in many cases virtually eliminates, access to the Community market for third-country suppliers of temperate and Mediterranean-type agricultural produce. In recent years EC agricultural policy has been progressively modified as a result of severe budgetary pressures, but the basic principle of providing income support to farmers through commodity price intervention has not been fundamentally altered.

The reforms agreed to at the European Council in Brussels in February 1988 included a ceiling for agricultural price support expenditure in the future, the completion of the set of "budgetary stabilizers" that provide for mandatory reductions in price support once production ceilings are breached, and the introduction of a series of accompanying structural measures (set-aside, aid for forestry, aid for earlier retirement, direct income aids, and so on). At the same time, the council approved a new system of financial resources accruing to the Community in its own right. These reforms are expected to curtail the growth of EC agricultural production in the future compared with the past. The new rules imply that in coming years market support expenditure cannot grow by more than about 2 percent in real terms; this compares with an average of 6 percent (at constant prices and exchange rates) between 1980 and 1987.

Primary Products in the GATT Negotiations

More fundamental reform may be proposed if the agricultural negotiations in the GATT Uruguay Round are brought to a successful conclusion. These negotiations have now passed their halfway mark, but with just over 12 months remaining, the outcome is still unclear. At the midterm review meeting in Geneva in April 1989, ministers concluded that the broad consensus was that agricultural policies should be more responsive to international market signals, protection should be progressively reduced, and domestic support should be provided in a less trade-distorting manner.

Participants from developed countries gave a short-term commitment not to increase existing levels of domestic and export support for the years 1989 and 1990. For the longer term, participants agreed "to provide for substantial progressive reductions in agricultural support and protection sustained over an agreed period of time." The Geneva Agreement envisages an intensive period of negotiations (with the submission of detailed proposals to be completed by December 1989 and agreement to be reached not later than the end of 1990). Two themes are of special interest to the developing countries:

- the modalities of special and differential treatment for developing countries;
- the ways to take account of the possible negative effects of the reform process on developing countries that are net food importers. These negative effects could arise if reduced agricultural support led to increased import prices for food.

In October 1989, the United States tabled a detailed proposal calling for the elimination of export subsidies within five years and the withdrawal of most other forms of agricultural support (with limited exceptions for items such as publicly funded research and extension as well as payments to farmers not linked to production and bona fide food aid programs) within a ten-year period. The United States stressed that its proposal was intended as a document for negotiation. However, it met with a hostile reaction from the EC. The latter
accused the United States of breaking the spirit of Geneva Agreement, which called for substantial reductions in agricultural support rather than its elimination.

The EC, in its own detailed negotiating position submitted in December 1989, continues to insist that agriculture must be treated as a specific sector with its own problems. It rejects out of hand any idea of long-term elimination of support in favor of a gradual (although unspecified) program of reductions. It has gone some way toward accepting the U.S. idea of "tariffication," which would turn variable protective devices, such as the EC's variable levies, into fixed tariffs as a prelude to their dismantling, although demanding in exchange the right to "rebalance" protection levels for individual commodities (meaning that protection for one product could be increased provided the overall trend was downward). Any eventual compromise between these U.S. and EC positions will have clear implications for access to primary commodity markets.

More rapid progress has been achieved in the tropical products negotiating group, which agreed to an interim trade liberalization package—estimated to cover some US$20 billion of trade—at the Montreal GATT meeting in December 1988. The European Community is among the group of developed and developing countries that have implemented tariff cuts. For the African countries associated with the EC through the Lomé Convention, or that have individual trade or association agreements such as most Mediterranean countries have, such tariff reductions have an ambiguous effect. While they improve access to non-EC countries, they reduce the margin of preference they enjoy over competing suppliers on the EC market.

Changes to Preferential Arrangements Affecting Trade in Primary Products

Countries with preferential trade agreements with the EC thus have an ambivalent attitude toward further generalized tariff reductions. Further liberalization of international trade in the Uruguay Round, or further improvements in the Community's GSP offer as revised in 1991, is a mixed blessing. This is because these countries already enjoy virtually unlimited access to the EC market for goods meeting the EC's origin rules (apart from agricultural products governed by CAP regulations). Further liberalization will reduce the value of their preferential margin in the EC market, while offering some compensation in terms of improved market access to non-EC markets. Given the tendency in the EC's Common Commercial Tariff toward tariff escalation with greater degrees of processing, the margin of effective preference compared with other third-country suppliers can be substantial.

An improved trade offer in the Lomé Convention or in individual Mediterranean agreements would be one way to compensate for the possible erosion of preferential margins as a result of the Uruguay Round. However, the convention already allows unrestricted access to the EC market for tropical products and manufactures, subject only to meeting the Community's (stringent) rules of origin and the maintenance of a safeguard clause. For agricultural products, the convention allows duty-free entry where the customs tariff is the only form of protection. For products subject to the CAP variable system, the convention ensures that ACP countries get more favorable treatment than other nonmember countries for these products. The most important concessions concern cereals, beef, sugar, fruit and vegetables, and oilseeds. No substantive change in these arrangements has been made in the renewal of Lomé IV.

Overview of 1992 Effects

The measures most likely to have an impact on the Community's trade in primary products comprise the elimination of national trade restrictions (including monetary compensatory amounts applied to agricultural trade), the removal of technical barriers to trade, and fiscal approximation. The effects of the stimulus given to EC growth by the single market program must also be considered.
Some aspects of 1992 are likely to be export-enhancing for developing country suppliers. First, an increase in Community GDP of 4.5 to 7 percent (above what it would otherwise be) will raise demand for primary product imports (Emerson and others 1988, table 10.2.2). Second, the elimination of technical barriers and national restrictions to intra-Community trade can have trade-creating effects for third countries. After 1992, once a product has been legally imported into one member state and meets its requirements, it can circulate freely throughout the Community. This greater transparency of the Community market should make it easier for third countries, including developing countries, to develop new markets within the Community and to benefit from any economies involved in producing and shipping larger volumes. Third, the removal of excise taxes on some primary commodities (for example, coffee in Germany and Denmark) would, if put into effect, increase the demand for these products.

Other elements in the 1992 program will have primarily export-redistribution effects, that is, they will involve substitution of one developing country supplier for another. First, the removal of national restrictions involving preferences for certain groups of developing countries will clearly have this effect. In the case of banana imports, for example, completion of the market would, in the absence of compensatory action, benefit Latin American suppliers at the expense of ACP suppliers. Second, some technical standards, by favoring the use of one particular product over another, have the implicit (and usually unintended) effect of creating a preferential market for the exports of particular developing countries. An example is the requirement in some countries that a product contain no oil other than cocoa butter in order to be called chocolate. Implicit restrictions also exist tending to favor supplies from former colonies. The 1992 process will tend to bring about more homogeneity in geographical import patterns between member states, with potentially important distributive effects. Third, different supply capabilities among developing countries imply that some will be able to respond to the new market environment more quickly than others. The least-developed countries could lose out as a result, a point Frisch (1989) emphasizes, while the more advanced developing countries would gain.

Export-reducing effects can also be identified, some of which can be classified as trade-diverting in the classic sense. As a result of the elimination of internal nontariff barriers, the cost of importing from other member states will fall. Other things remaining the same, this relative reduction in the price of imports from other Community countries will encourage trade diversion from third-country suppliers. Examples of trade diversion are not easy to find in the case of primary products. A large proportion of EC primary imports from the developing countries is noncompetitive with EC suppliers. Import displacement is likely to be significant only in the case of goods that have undergone processing and are in direct competition with EC producers.

The fear of developing countries, however, is that trade diversion effects will occur because the removal of national barriers may be accompanied by a strengthening of common external barriers. In the case of technical barriers to intra-Community trade, the mutual recognition principle does not require or imply any changes in external barriers. However, while the mutual recognition principle is the usual approach to eliminating technical barriers to trade, where environment, public security, and health are concerned, the Community will set minimum standards in the form of horizontal directives. For food, this will mean a general raising of health and phytosanitary standards that developing countries may have difficulty in meeting. Of the 300 measures outlined in the Commission's 1985 White Paper on the Completion of the Internal Market, no less than 74 concern veterinary and phytosanitary regulations. The influence of these factors is already being felt. Zimbabwe tobacco producers, for example, will have to adapt to the implications of low-tar standards set by the Commission. Concern about cadmium has affected Togo's phosphate exporters and will require investment in new equipment if it is to be allayed.
Detailed Analysis of 1992 Effects

The net consequences for African countries of the single market will be determined by the relative weight of each of the three effects identified above. This section attempts to quantify this effect and, in addition, examines the likely impacts of fiscal harmonization, the abolition of national restrictions, the approximation of technical standards, and the abolition of monetary compensatory amounts on trade in CAP-protected agricultural products.

Magnitude of the 1992 Income Effect

Among the export-enhancing effects the most important is likely to be the additional demand created by the "locomotive effect" of faster EC growth for African primary exports.

The magnitude of trade creation due to the locomotive effect arises from two sources, a volume and a price (or terms of trade) effect. The volume effect can be simply estimated once the change in economic activity resulting from the single market and the import elasticity of demand for African primary imports are known. The assumption is made, based on the Cecchini Report (Cecchini 1988), of a 5 percent increase in EC GDP following implementation of the single-market program. Consistent estimates of the import elasticity of demand for primary products are more difficult to come by. There is a discussion of some published estimates in the annex.

Table 3-1 shows the result of one calculation of the possible volume effect for African primary exports following completion of the internal market. Clearly the overall gain is heavily influenced by the gain to fuel exporters (mainly Algeria, Angola, Libya, and Nigeria). In assessing the realism of the figures shown, we should bear in mind the EC's deliberate efforts to reduce its dependence on oil imports. The gain to other exporters will be much more modest, amounting to around US$290 million, or less than 3 percent of the existing value of nonfuel commodity exports.

Table 3-1. Estimated Value of Projected Increase in Volume of African Primary Commodity Exports to EC Arising from a 5 Percent Increase in EC GDP

<table>
<thead>
<tr>
<th>Product group</th>
<th>Value of EC imports, 1987 (US$ million)</th>
<th>Import elasticity</th>
<th>Effect of 5% increase in EC GDP (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Food and beverages</td>
<td>6,663</td>
<td>0.6</td>
<td>200</td>
</tr>
<tr>
<td>2. Raw materials</td>
<td>3,641</td>
<td>0.3</td>
<td>55</td>
</tr>
<tr>
<td>3. Nonferrous metals</td>
<td>1,192</td>
<td>0.7</td>
<td>42</td>
</tr>
<tr>
<td>4. Fuels</td>
<td>19,041</td>
<td>1.9</td>
<td>1,809</td>
</tr>
<tr>
<td>5. Nonfuel primary products</td>
<td>11,495</td>
<td>0.5</td>
<td>287</td>
</tr>
<tr>
<td>6. Total primary (4+5)</td>
<td>30,536</td>
<td>--</td>
<td>2,096</td>
</tr>
<tr>
<td>7. Total primary (1-4)</td>
<td>30,536</td>
<td>--</td>
<td>2,105</td>
</tr>
</tbody>
</table>

= Not applicable.

Source: Author's calculations based on trade value statistics from OECD (1989) and import elasticities from Balassa (1988).

To this volume effect must be added the terms of trade effect arising from higher prices for existing exports due to increased EC demand. The price effect in any market will depend on the EC's share of total world imports, the income elasticity of import demand, and the price elasticities of import demand and export supply. Given the elasticity
assumptions derived in the annex, the value of the terms of trade effect is shown in table 3-2. Fuel is not included in this calculation because the major fuel exporters control its supply in an effort to maintain a target price. The terms of trade effect implies a further very modest gain to African non-fuel exporters. In total, trade creation as a result of the locomotive effect of faster EC growth could be worth around US$400 million to African non-oil exporters.

Table 3-2. Value of Terms of Trade Effect due to a 5 Percent Higher EC Demand for Primary Products

<table>
<thead>
<tr>
<th>Product</th>
<th>EC share world market (percent)</th>
<th>Increase in world demand (percent)</th>
<th>Increase in world price (percent)</th>
<th>Value of African global exports, 1986 (US$ millions)</th>
<th>Terms of trade gain (US$ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverages</td>
<td>24</td>
<td>0.7</td>
<td>0.6</td>
<td>9,071</td>
<td>54</td>
</tr>
<tr>
<td>Agricultural raw materials</td>
<td>30</td>
<td>0.45</td>
<td>0.45</td>
<td>2,572</td>
<td>12</td>
</tr>
<tr>
<td>Minerals</td>
<td>30</td>
<td>1.05</td>
<td>0.95</td>
<td>3,504</td>
<td>33</td>
</tr>
<tr>
<td>Fuels</td>
<td>27</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Total terms of trade gain</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>99</td>
</tr>
</tbody>
</table>

-- = Not applicable.

*Source: Author's calculations based on assumptions contained in the annex.*

**Implications of Fiscal Changes Arising from 1992**

Currently, member state indirect tax regimes vary widely. The intention is to bring about substantial approximation of indirect tax rates within the Community. The commission's proposals, however, have changed considerably over time. The search for consensus has been made more difficult by (a) the large fiscal loss (gain) to individual member states as a result of approximation and (b) the requirement of unanimity (instead of qualified majority) at the council level before putting approximation into effect.

Harmonization of VAT rates is complicated by the fact that the standard rate of VAT differs across the Community, and that most countries also apply special lower rates and higher rates (and sometimes more than one). The commission originally proposed a range of 14 to 20 percent within which member states would have to fix their standard rate, plus a single lower rate in the 4 to 9 percent range for foodstuffs, energy products, water supplies, transport, pharmaceutical products, books, newspapers, and periodicals. It subsequently accepted that zero rates could be permitted in certain circumstances (a concession to Ireland and the United Kingdom, which have zero-rated food and children's clothing). After toying with the idea of a minimum rate of 15 percent instead of a range for the standard rate, in December 1989 the Finance Council adopted a two-legged approach. For the next two years countries with a standard VAT rate inside the 14 to 20 percent band agreed not to move outside it, while countries with VAT rates outside the band agreed not to diverge further away from the band. Countries can retain the present lower rates until the end of 1992 while they try to agree on their convergence. Essentially, the proposal means that the approximation of VAT rates will be postponed for a further two years. However, member states will probably use this breathing space to move toward the Community average, so some convergence of VAT rates can be expected in practice.
Countries have encountered similar difficulties in agreeing on a common rate structure for excise taxes, where rate differences between member states are even more pronounced. Under the commission's current proposals (November 1989), both minimum rates and target rates would be set for alcohol and alcoholic beverages, tobacco, and most petroleum products. The target rates are set at considerably higher levels than the commission's original proposals to take account of concerns about health, transport, energy, and the environment expressed, in particular, by the northern member states. While countries will not be obliged to adjust rates that are currently higher than the minimum rate, any subsequent adjustment will be allowed only if it is toward the target rate, and not away from it. Both minimum and target rates would be reviewed every two years. Excise duties on all other products would be phased out.

The effect of these tax changes on African exports of primary goods can, in view of the uncertain outcome of the negotiations, only be roughly sketched. One issue is the impact of the EC tax system on consumption of tropical beverages. In the case of cocoa, excise taxes are low or nonexistent in the member states, with the exception of Denmark, which accounts for only 0.3 percent of Community imports. The position as regards coffee is different. Excise taxes are substantial in several of the major importing countries. Germany has a rate of 41 percent on coffee beans, Italy charges 9 percent, Belgium 6 percent, and Denmark 15 percent. Denmark also imposes excise taxes on tea, but the major importers (notably the United Kingdom, which accounts for 70 percent of EC consumption) impose no tax.

Any change in excise taxes must be seen in the context of prospective changes in VAT. Tropical beverages are VAT zero-rated in the United Kingdom and Ireland; other member states apply VAT at different rates. Cocoa consumption is taxed indirectly via VAT on chocolate confectionery. Under present proposals, post-1992 VAT rates may not differ much from existing rates, but excise taxes may be abolished. If that occurs, African coffee exporters would be among the main beneficiaries. According to Davenport's (1988) estimates, the effects on exporting countries of eliminating excise taxes on coffee and cocoa products would exceed ECU 650 million, of which 189 million would accrue to ACP producers. These figures take account of an estimated 5 percent rise in the world price of these products as a consequence of the rise in EC demand in response to the tax cut.

Indirect taxes on fuel also vary considerably among member states and explain the high degree of price dispersion for fuel products. At the end of 1987, VAT and excise duty on petroleum in the member states ranged from 40 to over 60 percent of the average EC price. For environmental and other reasons, however, any significant reduction in net tax incidence that would be of interest to developing country oil exporters as a result of 1992 is unlikely. The demand position could, however, be affected by a tougher EC approach to domestic subsidies, national oil-marketing monopolies, and special national arrangements with non-EC suppliers.

**Consequences of Abolishing National Restrictions**

Relatively few national restrictions remain in force within the Community for primary products. To enforce such restrictions, Article 115 permits member states to restrict imports from other member states where national interests are likely to be seriously affected by trade deflection. However, recourse to Article 115 has been infrequent for agricultural products and the number of cases has been declining over time. Despite this, one or two problem areas will arise.

Six member states (France, Greece, Italy, Spain, Portugal, and the United Kingdom) operate separate national regimes for the import of bananas from former colonies. Spanish banana imports are purchased almost exclusively from the Canaries. The average price differential between preferred suppliers (mostly of ACP origin) and non-ACP suppliers (mostly Latin American) amounted to 21 percent in 1987 (EUROSTAT trade statistics). Since the GSP tariff on bananas is zero, the effect of eliminating the national restrictions
could be to reduce ACP producers' export revenues by ECU 60 million. This would be a serious loss to such economies as those of the Windward Islands, other Caribbean countries, Cameroon, the Côte d'Ivoire, and Somalia. Some easing of their position could be arranged via deficiency payments; that is, their bananas would sell on the Community market at the world price, but EC subsidies would be paid up to present levels of supply. In that way, their income would be sustained without detriment to the objective of completing the EC market.

Obstacles to Communitywide trade also exist in the market for energy products. In the case of oil, some countries still operate national marketing monopolies, although on a diminishing scale, and others retain price controls or import-licensing systems. The adoption of common specifications at the Community level would, according to commission estimates, reduce costs by ECU 500 million. This would have implications for states trying to build up their export-refining capacity. Many member states employ measures to encourage the use of domestic energy in electricity production (coal in the United Kingdom, turf in Ireland). Direct state aids to the coal industry amounted to ECU 3.3 billion in 1986.¹ No matter how the energy market is restructured, however, extra-EC oil suppliers are unlikely to gain: a major objective of Community energy strategy is to reduce dependence on imported oil.

At present, the original six member states (except the Netherlands) prohibit any product labeled chocolate from containing any vegetable oils or fats other than cocoa butter/oil. This is to protect continental chocolate producers from United Kingdom competition (the United Kingdom permits vegetable oils up to 5 percent by weight). The effect of these regulations is to benefit cocoa exporters at the expense of palm-oil exporters: an instance of intra-developing country redistribution. Pressures of competition, under the principle of mutual recognition, will force continental countries to relax their rules. Davenport (1988) estimates a loss to cocoa producers of ECU 49 million (1985/86), or 2.5 percent of their exports to the Community.

Sugar is also subject to quotas, but it is covered by a Communitywide regime within the framework of Lomé that is fully compatible with the internal market. The United Kingdom purchases most ACP supplies, but this reflects supply peculiarities rather than market segmentation. Pressures on internal Community prices will pass over into lower prices for ACP producers, but this is part of CAP reform, not 1992. The removal of the restriction that mandates the use of sugar in French soft drinks could be described as a 1992-effect if it materializes (Mayo 1989). Dismantling the sugar price regime under CAP would, of course, imply severe domestic EC, and hence ACP, price reductions.

Some countries apply seasonal quotas to Mediterranean products (potatoes, lettuces, tomatoes, beans, and grapes) that may not be enforceable after 1992. EC imports of vegetables and fruit (including tropical fruit) from the developing countries amounted to US$6.3 billion in 1987, over 7 percent of the Community's total primary imports. This is a sizable sum. Future prospects for these products, however, will be more influenced by reform of the CAP than by the 1992 program.

**Approximation of Technical Standards**

National regulations relating to environmental and consumer protection will have to be approximated to create an effective internal market. Article 100A of the Single European Act provides that such measures will take as their base "a high level of protection." Most important for primary exporters will be action in the field of animal and plant health. A Community plant health regime already exists, but it will need to be amended to take account of the abolition of frontier controls. In the case of animal health, the proposal is to remove border controls on intra-Community trade in favor of disease-free certification before animals are moved, and to step up common actions to eliminate diseases such as

¹ In this paper, a billion equals a thousand million.
swine fever, tuberculosis, brucellosis, and leukosis. Other areas where technical standards will be harmonized include the permitted use of drugs, implants and other pharmaceutical products, residue tolerance levels, seed regulation, and the marketing and registration of plant protection products. Common standards are also envisaged relating to animal welfare and waste disposal.

The conversion of national to Communitywide regulations will have implications for primary exporters, particularly of food and tobacco. Exports of fish are subject to a Communitywide regime, but a 1992 effect via new health regulations cannot be ruled out, a point of relevance to Morocco and other suppliers. Developing country exporters of ores, minerals, and fuels will also need to become more conscious of the environmental aspects of their output; the case of phosphates has been noted earlier. How these exports will be affected is not clear, but the net effect of forthcoming change is certain to favor producers of higher-quality products from an environmental and safety point of view. This suggests the need for more investment in upgrading product quality among African suppliers.

**Agri-monetary Changes and the Level of Agricultural Support**

The impact of the 1992 program for agricultural protection must be evaluated in light of the other pressures reshaping the CAP as described earlier. Its main impact will be in areas where the Community's market for agricultural products remains fragmented because of national restrictions or derogations, or where levies and subsidies continue to apply in intra-Community trade. The most important reason for the continued fragmentation of the Community market has been governments' unwillingness to face up to the consequences of currency realignments for domestic agricultural prices. The Community has devised a complex agri-monetary system that allows governments to modulate the impact of devaluations or revaluations of their currency on national agricultural price levels.

As a result, national support prices, when converted into ECU at market exchange rates, can differ significantly by country and by product. At the end of December 1987, the Netherlands and the Federal Republic of Germany had, on average, the highest support price levels for all products (7 percent above the Community's effective average), while the United Kingdom and Greece had the lowest prices (12 percent and 38 percent, respectively, below the Community average). Price differentials between countries for individual products were even more striking. In the case of cereals, for example, support prices in Germany were 8 percent higher than in France and Ireland, 26 percent higher than in the United Kingdom, and 64 percent higher than in Greece (Emerson and others 1988). These differences in national price levels require that border taxes and subsidies must be applied in agricultural trade. The removal of these border taxes and subsidies is therefore a prerequisite for completing the internal market in agricultural products. For third countries, its significance lies in the mechanics of how this will be done. In particular, will the elimination of monetary compensatory amounts (MCAs) be associated with a lower or higher level of external protection for Community agriculture than might otherwise be the case?

For developing countries, the implications of changes in the level of EC agricultural protection are many-sided and somewhat controversial (Matthews 1985). We can identify at least four general effects of lower protection:

- the terms of trade effect arising from higher world market prices, which would be a clear gain for developing country exporters, but which would reduce the welfare of developing country importers;
- the greater stability in world markets that would follow from lower EC protection would benefit developing country exporters and importers (note, however, that this effect is more dependent on a change in the form of protection [tariffication] than on a change in its level);
• the change in world prices for agricultural products will have consequences for other markets (for example, tropical agricultural products and manufactures) that will generally benefit developing countries that are exporters of tropical products and importers of manufactures;

• the higher world prices may encourage developing countries to direct increased resources into agriculture, with resulting efficiency and equity gains.

On balance, the developing countries would welcome a reduction in EC agricultural protection. Hence the interest in asking what effect the elimination of MCAs would have for this.

Since 1987, the Community has made considerable progress in eliminating national price differences due to the agri-monetary system, at least for countries within the Exchange Rate Mechanism of the European Monetary System (EMS). At the 1987/88 farm price review, the participants agreed on a timetable to dismantle newly created monetary gaps. Subsequently, they also agreed to phase out the existing negative MCAs in four stages up to 1992. The introduction of the so-called switchover system in 1984 greatly facilitated this elimination of national price differences in recent years. The effect of this system is to increase the value of the ECU used to denominate EC prices by the highest appreciation of any currency following an EMS realignment (the so-called “green” ECU). Under this system, support prices in national currencies have been additionally increased by almost 14 percent since 1984, despite the apparent freeze on nominal farm prices during this period.

What might happen after 1992? One alternative is to abolish the agri-monetary system altogether. This would leave EC agricultural markets to operate like any other, on the basis of market exchange rates for currencies. Support prices would vary in national currency as exchange rates between national currencies and the ECU fluctuated. While exchange rates within the EMS have been relatively stable in the past two years, the liberalization of capital movements between the major EMS countries after 1990 could lead to increased realignments in the absence of closer monetary coordination. Whether member states would be willing to accept the resulting instability in their agricultural prices is uncertain. However, the weakening of the intervention system following the changes to the CAP means that there is now a less direct relationship between changes in support and market prices than was the case before.

The other alternative would be to keep the agri-monetary arrangement with its system of green exchange rates, but to establish limits to the amount by which exchange rates would be permitted to vary from central or market rates before being brought back into line by devaluation or revaluation as necessary. Within these limits MCAs would no longer be applied. Technically, this could be achieved by increasing the size of the existing neutral margins, which are percentages of the monetary gap ignored for the purposes of calculating MCAs, from the present 2 percent limit to whatever size of monetary gap would be allowed. The resulting monetary gaps could then be eliminated gradually over time.

In this second scenario, the key issue for third countries is what would happen to the switchover system. If the present arrangement continued, then the green ECU would be gradually revalued over time, allowing further scope for increases in national support prices and in the level of external protection. If the system was discontinued, however, then countries with revaluing currencies would have to be prepared to see this revaluation ultimately reflected in lower national support prices, and the impact on agricultural protection levels of future EMS realignments would be broadly neutral.

To summarize, the incompatibility of border taxes and subsidies on agricultural trade with a single market after 1992 will force changes to the Community's agri-monetary system. This will have implications for the future level of Community support to its agriculture. Third countries often associate the need to remove national restrictions as part of the 1992 program with the fear that the common Community level of external protection will be strengthened as a result (Fortress Europe). However, the reform of the
Community's agri-monetary system holds out the prospect of lower external protection in the future than would be the case under the continuation of the current rules. The central issue is what will happen to the switchover system, which implicitly increases the value of the ECU used in farm price support by the amount of the largest appreciation in the value of any EMS currency at the time of an EMS realignment. The abolition of this system, a likely but not inevitable part of the 1992 process, would reduce the level of CAP protection in the future compared with what it would otherwise be under the existing rules. The Commission's views on the future of the agri-monetary system are expected early in 1990, and to date no indication has been forthcoming as to the likely outcome.

Conclusions

The purpose of this paper has been to focus attention on likely changes in the conditions governing market access for African primary product exports to the EC following implementation of the single-market program and to suggest strategies to enable African exporters to take advantage of these changes.

The principle changes will arise from the faster growth expected in the EC economy following the deregulation and increased competition resulting from the completion of the internal market; the implications of proposed fiscal changes on the consumption of tropical beverages; the removal of remaining national restrictions on trade in primary products; the approximation of health and environmental protection standards at a high level; and changes in the Community's agri-monetary regime for CAP products. None of these effects will be dramatic in themselves, although particular changes could be important for individual African exporters, depending on the composition of their exports and potential exports.

Cumulatively, however, the end result of the process will be to reduce policy barriers to access to EC markets, while at the same time making it more likely that the benefits of the process will accrue to the more competitive of the Community's external suppliers. This process will exacerbate the position of suppliers, including many African countries that face structural difficulties in increasing their exports to the Community market.

Any steps that increase the overall competitiveness of an economy will place it in a better position to avail of the opportunities after 1992. The need to improve product quality to meet higher health and environmental standards has already been mentioned. It will become more critical for exporting firms to keep in close touch with their markets, not least to learn how they might be affected by the 1992 program. There is a need to move beyond a generalized information campaign to provide opportunities for African firms to research the specific effects for their business. EC assistance in this regard would be useful.
Annex: Discussion of Price and Income Elasticity Estimates Used

Bond (1987) has assembled estimates of income elasticities of demand by commodity for the world as a whole and also derived her own estimates by commodity and region. Table 3-3 compares her estimates of income elasticities for imports from all developing countries and from Africa with other estimates. The column headed “average” is based on an appropriately weighted average of elasticities for individual commodities obtained from a wide range of studies, while the Goldstein and Khan's (1984) results are an average of the demand elasticities obtained in their survey of import equations. The range in values is clearly evident, with Bond tending to the higher and Balassa to the lower end of the range.

Table 3-3. Estimated Elasticities of Demand for Primary Commodity Imports

<table>
<thead>
<tr>
<th>Study</th>
<th>Bond (all developing countries)</th>
<th>Bond (Africa)</th>
<th>Bond (average)</th>
<th>Goldstein and Khan</th>
<th>Balassa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>1.20</td>
<td>1.01</td>
<td>0.50</td>
<td>0.98</td>
<td></td>
</tr>
<tr>
<td>Beverages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.60</td>
</tr>
<tr>
<td>and tobacco</td>
<td>0.68</td>
<td>1.34</td>
<td>0.35</td>
<td>0.98</td>
<td></td>
</tr>
<tr>
<td>Agricultural</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>raw materials</td>
<td>0.56</td>
<td>0.54</td>
<td>0.80</td>
<td>0.85</td>
<td>0.30</td>
</tr>
<tr>
<td>Energy</td>
<td>3.53</td>
<td>5.10</td>
<td>--</td>
<td>1.22</td>
<td>1.90</td>
</tr>
<tr>
<td>Minerals</td>
<td>2.16</td>
<td>3.85</td>
<td>2.80</td>
<td>--</td>
<td>0.70</td>
</tr>
</tbody>
</table>

= Separate elasticities not derived.

The estimates shown in table 3-3 are not strictly comparable (Bond's estimates refer to the impact of a rise in world income while Balassa's estimates refer to a rise in the income of OECD countries) and are not necessarily relevant to calculating the effect of a rise in economic activity in the EC on import demand from African countries. Whether past import elasticities will be a good guide to future trends might also be questioned. One argument is that future EC growth will be less materials- and commodity-intensive than in the past. A second argument is that 1992 liberalization is expected to be particularly important for the services sector, and thus a higher proportion of the expected increment to EC growth than might be predicted, even taking account of secular trends, may occur in this sector. Both arguments suggest that the elasticities in table 3-3 may be biased upward for future projections. For this reason, the estimates of the volume effect of 1992 on African primary product exports shown in table 3-1 in the paper is based on Balassa's more conservative figures.

To estimate the terms of trade effect, information is needed on the EC's share of world imports, its income elasticity of demand for imports of each product, and demand and supply price elasticities for imports and exports, respectively. Bond has also assembled information on the relevant price elasticities and, based on her data, the following estimates were used to derive the figures in table 3-2.

<table>
<thead>
<tr>
<th></th>
<th>Demand</th>
<th>Supply</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverages</td>
<td>-0.4</td>
<td>-0.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Agriculture raw materials</td>
<td>-0.5</td>
<td>0.5</td>
<td>0.3</td>
</tr>
<tr>
<td>Minerals</td>
<td>-0.8</td>
<td>0.3</td>
<td>0.7</td>
</tr>
</tbody>
</table>
The projected increase in world prices is calculated as the percentage increase in world demand divided by the sum of the absolute values of the demand and supply elasticities. The percentage increase in world demand is, in turn, the product of the EC shares of the world market, the predicted 5 percent increase in EC GDP as a result of completing the internal market, and the income elasticity of import demand.

References


THE IMPACT OF EUROPE 1992 ON THE MAGHREB AND SUB-SAHARAN AFRICA

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Introduction

The project to complete the EC internal market by 1992 has presented the much-maligned two-handed economist (on the one hand ... and on the other hand ...) with a field day. The nature, let alone the impact, of European decisions on many issues has not yet been decided. The result is a tangled thicket of conflicting opinions and forecasts. For countries outside the Community even identifying whether their vital interests are affected by 1992, let alone developing a strategy to defend them, is difficult.

The confusion derives from the nature of the exercise. In a nutshell, all that the EC members committed themselves to do when they approved the Single European Act in 1987 was to take steps toward the creation of a customs union that they had promised to take 30 years before (for the original Six) when signing the Treaty of Rome. The reason why the customs union has remained uncompleted is that the remaining barriers are precisely those that are politically the most difficult to remove. The renewed political commitment to break them down, together with the adoption of qualified majority voting, means that the chances of success are much higher than before. Nonetheless, doubts must remain that not all of the trickiest barriers will be removed. The EC Commission has already been forced to back down over ex ante harmonization on value added tax (VAT) levels. Similar compromises on, for example, excise duties, are a possibility.

Another inherent feature in the 1992 project is that it is a journey into the unknown. Economists assume that European industry will become more efficient as a result of increased competition, but this remains to be tested in practice. More fundamentally, there is little firm guidance on how far the removal of barriers in itself will promote the creation of a unified market. After 1992, will Europe of the Twelve become a single market in the same sense as the United States is? Or will Europe remain 12 distinct, although closely related, markets? The distinction could be crucial, as any Mauritian clothing manufacturer exporting to a niche market in Paris will confirm.

The State of the Art

Experts have reached a difficult stage in analyzing the impact of 1992 on the developing countries. In the early days after the plan was launched, simply identifying the range of possible measures that might be taken and the potential positive and/or negative effects that each of these would have on third parties was sufficient. In due course this broad-brush mapping must be superseded by detailed analysis of how specific measures will affect particular developing countries, but moving to this stage is not yet possible. How many barriers will remain by 1992, the precise regime that will succeed them, and the nature of the Community’s posture compared with the rest of the world are all unclear. What is
possible now is to move beyond the broad mapping at least to identify the types of effects most likely to affect particular states and the broad orders of magnitude involved.

The approach of this paper is to combine these two levels of analysis. It identifies those aspects of the 1992 agenda most likely to have an impact on the Maghreb and Sub-Saharan states. In those cases (for example, bananas) where the potential effect can be described fairly precisely, the paper explains the modalities of the policy changes, the states that will be involved, and the broad orders of magnitude. In other cases where the EC's final position is still far from clear (for example, on harmonization of consumption taxes and the replacement of national nontariff barriers to imports), the paper identifies the extent to which states or subgroups within Africa are vulnerable to a policy shift in one way or another.

**The Scope of 1992**

Broadly defined, the 1992 program consists of three elements. They differ in their timetables, chances of success, and implications for the developing countries.

The first element is the campaign against barriers at frontiers that halt the flow of people and goods. It includes those of the 279 directives that form the decisionmaking core of 1992 that relate to the removal of direct controls at frontiers (for example, customs). Although there are many sensitive items on this agenda, it is, perhaps, the easiest to fulfill, and one with immediate implications for the Maghreb and Sub-Saharan Africa. The removal of national quotas on clothing imports will, for example, enable garments from the Republic of Korea imported into Germany to be resold in France in competition with output from the Maghreb.

The second element is the fight against the barriers within the Community: the many national rules that, while not ostensibly part of “trade policy,” effectively prevent goods being sold or persons moving freely from one member state to another. It includes the harmonization and/or mutual recognition of national policies that might inhibit the free flow of goods, such as technical standards. In many cases this will require not simply changes to rules, but also a shift in attitudes. For this reason, the struggle may be harder and take longer to result in major changes.

This part of the 1992 program is of less direct relevance to the Maghreb and Sub-Saharan Africa except in three respects. It is less important because these states do not have an export position to defend (because the internal European rules inhibit such exports), nor are they likely to be able to commence major exports when the barriers are removed (this is likely to be the preserve of other EC states).

The exceptions relate to technical standards, tax levels, and official aid. The harmonization or mutual recognition of technical standards may influence the level of demand for products the developing countries currently export and the countries' capacity to supply this demand (if, for example, standards are raised to levels unattainable by some states). The mutual recognition of technical standards for chocolate, for example, will enable British-style confectionery (with its lower cocoa content) to be sold in mainland Europe in competition with the higher quality, but higher priced, French and Belgian products. European demand for cocoa might suffer. However, a harmonization of excise taxes could increase the demand for coffee. Germany and Denmark both tax coffee heavily; if these consumption taxes were reduced to the European norm, demand would rise. Unfortunately, the harmonization of such excise duties *ex ante* now seems unlikely. They will only come down *ex post* if, in this example, the German and Danish governments find so many consumers purchasing their coffee in the lower-taxed Netherlands that the differential becomes unworkable.

The case of official aid also serves to illustrate both the potential gains from 1992 and the obstacles in the way of their attainment. As noted below, a logical extension of the current moves to open government procurement to tenders from all member states would be to do the same for aid contracts. The Netherlands government, for example, has already indicated
that it would allow companies from other member states to tender for its aid contracts, but there is a catch. This is that other member states must increase their aid to the current, relatively high, Dutch levels!

The third element of the 1992 program comprises the clutch of grand visions noted in the Single European Act. These include the "social dimension" (which would establish minimum work and pay standards for all member states), economic and monetary union (which would provide the EC with a single currency and a European central bank), a European foreign policy, and, ultimately, full European union.

Of these, the two of most direct relevance to the Maghreb and Sub-Saharan Africa are the social dimension and monetary union. If the social dimension actually has teeth, and is not simply a vague declaration, it would tend to raise labor costs in the peripheral EC states that are most competitive with the Maghreb and, to a lesser extent, Sub-Saharan Africa. Moves toward monetary union would have obvious implications for countries in the franc zones, but would also affect all states that undertake a significant part of their trade with the EC.

"1992" is a catchword rather than a specific date. This is true even for the first element of the 1992 program, the removal of barriers between states. Even if the Council of Ministers approves all the required directives by December 31, 1992 (and this is by no means certain), much work will be required to put them into practice. The EC directives have to be incorporated into the national laws of each of the Twelve; even then, implementation will begin only as bureaucratic adjustment takes place and appeals by aggrieved companies and people to the European Court of Justice in Luxembourg take their course.

The Broad Effects

The broad effects of 1992 on states outside the EC can be summed up quite briefly. The effects will be both direct and indirect.

Direct effects will be caused by changes in the European economy induced by 1992. The net impact on the outside world will be the result of two broad changes operating in opposing directions.

- To the extent that 1992 removes barriers between EC national markets and results in faster economic growth, third parties may benefit. The acceleration to growth should, other things being equal, result in increased EC imports, while the removal of internal barriers will make it easier for third-party exporters to exploit the full potential of European demand.
- Against this, the creation of more efficient production units within Europe will tend to increase the competitiveness of domestic supplies relative to imports. So the share of the EC market supplied by imports may decline. Whether or not the absolute level of imports falls depends upon whether this trade-diverting effect is larger or smaller than the trade creation of faster EC economic growth.

Indirect effects are the outcome of political decisions taken to influence the impact of these economic changes. The transition to a barrier-reduced Europe will provoke adjustment costs for those countries and companies that do very nicely out of the existing restrictions. Those adversely affected by 1992 can be expected to exert pressure on their national governments and on the EC institutions to find ways to offset these costs. An obvious temptation in such circumstances is to transfer the costs onto third parties through increased protectionism.

Economists are working hard to estimate the direct effects; their efforts are described in more detail in the accompanying papers. But for the Maghreb and Sub-Saharan Africa, the indirect effects resulting from EC political decisions may prove to be the more important for a number of reasons.
They will influence the distribution of benefits and costs among states outside the Community. Some states may be more protected and others less protected from the adverse effects of 1992, depending upon the strength of their political relations with EC states and the skill with which they "fight their corner."

Apart from the NICs, most developing countries will be affected less by the overall dynamics of the EC economy than by changes to the markets for specific products that make up the bulk of their exports. Some of the product markets of most concern to the Maghreb and Sub-Saharan Africa will be influenced strongly by government decisions on, for example, technical standards for chocolate, excise taxes for coffee, and the regime to succeed the present controls on clothing imports.

Not least, it is only through political negotiations that the outside world can influence the shape of 1992. Since it is an autonomous European affair, states outside the EC are not parties to 1992 decisionmaking. Their scope for influence is centered on any concurrent negotiations in which they are legitimate parties and that could involve decisions relevant to 1992. For Sub-Saharan Africa, the principal focus is Lomé IV; for the Maghreb, it is the more distant renegotiation of their bilateral association agreements with the EC. Both groups also have an interest in the GATT round of multilateral trade negotiations, the renegotiation of the Multi-Fibre Agreement, and the EC's next Generalized System of Preferences. In these latter areas their interests are partly positive (to gain greater access for products in which they are competitive) and partly negative (to avoid a dilution in the preferences they currently enjoy over other states).

The range of broad direct and indirect effects is set out in table 4-1. This underlines the unfortunate "on the one hand" and "on the other hand" of 1992 analysis: the potentially adverse effects on the right side of the table are simply the inverse of the potentially positive effects on the left side! Whether, in the event, each element of the 1992 package falls into the left or the right column depends on how it is implemented, as well as the product and non-EC state in question.

<table>
<thead>
<tr>
<th>Table 4-1. Potential External Effects of 1992</th>
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<tbody>
<tr>
<td><strong>Positive</strong></td>
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<tr>
<td>Trade creation (from faster EC growth)</td>
</tr>
<tr>
<td>Less protectionism (no nontariff barriers)</td>
</tr>
<tr>
<td>More liberal trade policy (majority voting)</td>
</tr>
<tr>
<td>Investment creation (from faster EC growth)</td>
</tr>
<tr>
<td>More cost-effective aid (EC-wide procurement tying)</td>
</tr>
<tr>
<td>Easier migration (removal of national barriers)</td>
</tr>
</tbody>
</table>

Potential Positive Effects
The potential positive effects can be grouped under six headings.
OVERALL GROWTH. The most important European reason for completing the internal market is to improve economic growth and employment performance in the Community. The EC Commission assumes that any significant increase of growth in Europe will spill over to third countries. This acceleration of growth will result both from the traditional trade creation effects and from more stable macroeconomic policies. To succeed, the internal market will require \textit{ex ante} coordination, which should make policies more predictable. A stronger European voice in monetary affairs might help to stabilize the international monetary system. To the extent that intra-EC exchange rates become more stable with the reinforcement of the European monetary system, there could be positive effects on the French franc zone members.

IMPROVEMENT OF MARKET ACCESS TO THE EC. Access to the Community market may be improved for the following reasons:

- The possibility for EC firms to exploit economies of scale on the internal market may improve their efficiency and thus reduce their pressure for protection.
- The increase in the margin of preference granted to Community members will lead to joint efforts by nonmember states for extra-EC trade liberalization. These efforts may lead to a virtuous circle of intra- and extra-EC trade liberalization.
- The possibility for individual member states to restrict trade by national nontariff barriers will have to disappear with the completion of the internal market.
- The EC budget constraint, together with the need for structural adjustment assistance in favor of Europe's weaker regions, may induce radical reform of the costly Common Agricultural Policy in the direction of a lower contribution of agriculture to value added in the Community's northern countries.
- Information costs for exporters to the EC will be reduced by the creation of a single market to replace 12 separate markets.

TERMS OF TRADE EFFECTS. Developing countries may witness a terms of trade gain. This arises if higher efficiency in Europe lowers the costs of goods that figure prominently in developing countries' imports, such as manufactures.

TRADE POLICY. Majority voting may accelerate decisionmaking in the EC. It may also reduce the possible protectionist bias implied by unanimous voting (with one or two recalcitrant EC states demanding protection as the price for their vote).

FOREIGN DIRECT INVESTMENT. Economies of scale in information on investment opportunities abroad could increase the level of Community foreign direct investment. Some evidence suggests that foreign direct investment (especially by smaller firms) is constrained by the problems of overlap and inefficiencies in gathering information on investment opportunities in the developing countries. Joint efforts to promote foreign direct investment in some regions (like Latin America and ASEAN) could involve lower risks to the investing firms by the development of a Community guaranteed investment instrument.

AID POLICY. The logic of 1992 is that aid tied to purchases in the donor country should be replaced by a Communitywide system (although this is not yet on the immediate agenda). As with public procurement, this should exert a downward pressure on prices in the Community.

Potential Negative Effects

The potential negative effects are ranged under much the same broad headings as the potential positive effects.
Overall Growth. If the internal market liberalization is accompanied by a reinforcement of external protection, the Community's growth potential will remain weak. Given the problem of predicting the effect of macroeconomic policies, it is by no means certain that policy coordination within the Community will actually result in long-term stability. For example, de facto German leadership of an enhanced European monetary system might impose excessive anti-inflationary policies on the weaker member states and become unsustainable over time. The franc zone members may be led to follow the German mark, via French participation in the European monetary system. This may not correspond to their fundamental economic interests; accumulated underlying tensions would then cause abrupt adjustments.

Reduction of Market Access in the EC. Although majority voting reduces the power of individual EC countries in the Community, the Iberian enlargement has increased the bargaining power of the southern EC countries, which are more protectionist. France's attitude in trade policy will be crucial. It is the only member that is both a northern and a southern European state. With its support, the southern member states would have the majority.

The mutual recognition principle implies discretionary power for national administrations when third-countries' products are exported through another member state. This may give a relative advantage to European firms. The commission's original idea of harmonization would have guaranteed free access to third-countries' products on the whole internal market from any entrance point; the new policy of mutual recognition does not necessarily do so.

If the Community's richer member-states are unwilling to supply sufficient solidarity assistance to the weaker members, it could lead the EC to offset the adjustment costs caused by the completion of the internal market by a reinforcement of external protection.

Terms of Trade Losses. Far from resulting in a favorable movement in its trading partners' terms of trade, a fully integrated trade policy in an oligopolistic international market could reinforce the potential for strategic gains in favor of European industries. The world market for some products could become increasingly dominated by a handful of firms.

Diversion of Foreign Direct Investment. The complete liberalization of intra-EC capital movements, together with incentives given for intra-Community firms to cooperate, could divert foreign direct investment in favor of the EC regions that currently have the most barriers (the southern countries of the Community).

Aid Policy. The problems caused by an excess demand for solidarity within the Community may lead to a reorientation of aid funds from developing countries to the weaker regions of the EC (together with a reinforcement of trade protection). Moreover, the replacement of aid tied to purchases in the donor country by aid tied to purchases in the whole Community may reduce the willingness of individual EC countries to provide aid.

Migration Policy. A common immigration policy will become necessary if border controls are suppressed within the Community. Countries that have especially favorable migration policies with one EC state may find that other member states insist on a deterioration of their terms of access. Further, the progressive dismantling of impediments to labor movements from Greece, Spain, and Portugal (and to some extent from Turkey) is likely to involve additional restraints on migrant workers from nonmember states.
Key Issues for the Maghreb and Sub-Saharan Africa

How far can this welter of conflicting possibilities be rationalized to provide guidance for states in Sub-Saharan Africa and the Maghreb? On which of the issues should governments from these states concentrate their diplomatic efforts to ensure that the effects are in the potentially positive rather than the potentially negative column?

A first step is to isolate those effects of 1992 most likely to have an impact on these states. This is summarized in table 4-2, which lists for various country groupings those elements of 1992 that could have the most serious adverse effects. For Sub-Saharan Africa, the key problem is trade diversion. For the Maghreb, the problems are a certain amount of trade diversion, investment diversion, and restricted migration.

Table 4-2. Potential Dangers of 1992 for Different Developing Countries

<table>
<thead>
<tr>
<th>Country group</th>
<th>Potential dangers</th>
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<tbody>
<tr>
<td>NICs, middle-income countries (for example, East Asia, ASEAN)</td>
<td>Increased protectionism</td>
</tr>
<tr>
<td>Mediterranean (for example, Algeria, Morocco, Tunisia)</td>
<td>Trade diversion</td>
</tr>
<tr>
<td></td>
<td>Investment diversion</td>
</tr>
<tr>
<td></td>
<td>Restricted migration</td>
</tr>
<tr>
<td>Latin America</td>
<td>Investment diversion</td>
</tr>
<tr>
<td></td>
<td>Increased protectionism</td>
</tr>
<tr>
<td>Africa, Caribbean, Pacific</td>
<td>Trade diversion</td>
</tr>
</tbody>
</table>

At the present time we can say little more about investment diversion and restricted migration. The discussions within the EC are not far enough advanced and the possible repercussions of 1992 are too vague, but the Maghreb governments should take note of the dangers and keep track of EC policies related to these two issues as they develop. The rest of this paper concentrates on trade diversion.

Trade Diversion in Manufactures

The danger of trade diversion for both groups of countries derives from their current preferential access to the EC market and their longstanding links with certain of the national markets, notably France and, to a lesser extent, the United Kingdom. A possible result of 1992 may be a reduction in the effective level of preference so that exporters from the Maghreb and Sub-Saharan Africa face stiffer competition from other countries, particularly the NICs.

The potential reduction in preference will result from the abolition of national quotas. Currently, the EC has two tiers of nontariff barriers to imports: Communitywide barriers plus additional national barriers imposed by some member states on some products from some countries. The national tier is made possible by Article 115 of the Treaty of Rome, which permits states to restrict imports from their neighbors of goods originating outside the Community. This article will become inoperative as part of the 1992 exercise; the abolition of customs controls on internal borders will remove the power of member states to limit imports from their neighbors and, hence, their opportunity to police national quotas.

The extent of national nontariff barriers is very vague, with widely varying estimates of the number imposed. One set of illustrative figures is provided in table 4-3, which lists the requests for protection under Article 115 approved by the commission in the period 1979 to 1987 according to the requesting country. The list is an incomplete one, since there is a...
variety of other ways through which states can impose national controls, notably voluntary export restraint (VER) agreements, which are sometimes even negotiated on an industry-to-industry rather than a government-to-government basis.

Table 4-3. Article 115 Case Acceptances, by Member State, 1979-87

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Benelux</td>
<td>44</td>
<td>25</td>
<td>17</td>
<td>19</td>
<td>22</td>
<td>14</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>146</td>
</tr>
<tr>
<td>Denmark</td>
<td>3</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Federal Republic of Germany</td>
<td>6</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>France</td>
<td>124</td>
<td>105</td>
<td>80</td>
<td>85</td>
<td>57</td>
<td>39</td>
<td>66</td>
<td>67</td>
<td>62</td>
<td>685</td>
</tr>
<tr>
<td>Greece</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Ireland</td>
<td>33</td>
<td>57</td>
<td>32</td>
<td>26</td>
<td>48</td>
<td>59</td>
<td>57</td>
<td>45</td>
<td>52</td>
<td>409</td>
</tr>
<tr>
<td>Italy</td>
<td>17</td>
<td>23</td>
<td>23</td>
<td>29</td>
<td>37</td>
<td>34</td>
<td>30</td>
<td>20</td>
<td>23</td>
<td>236</td>
</tr>
<tr>
<td>Portugal</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Spain</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>4</td>
<td>13</td>
<td>17</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>33</td>
<td>7</td>
<td>12</td>
<td>13</td>
<td>20</td>
<td>19</td>
<td>9</td>
<td>5</td>
<td>3</td>
<td>131</td>
</tr>
</tbody>
</table>

-- = Not applicable.


Nonetheless, the table provides a useful insight into the relative incidence of national restrictions. It suggests that the countries that make most use of national nontariff barriers are France, Ireland, and Italy. Those with the fewest restrictions over and above Community-level quotas are the former Federal Republic of Germany and Denmark (the figures for Greece, Spain, and Portugal are not directly comparable since they were covered by their transitional accession regime during the period). In other words, states that export primarily to France, Ireland, and Italy have more reason to be worried about possible increased competition from the NICs and other third-party exporters than do countries exporting primarily to Germany and Denmark or having a broad geographical spread.

Table 4-4 rearranges the data according to the type of product for which Article 115 restrictions have been requested. Overwhelmingly the most important product is textiles (including clothing), followed by other "sensitive manufactures." The predominance of clothing and textiles is because the most extensive set of national quotas is that negotiated under the framework of the Multi-Fibre Agreement (MFA).

Table 4-4. Article 115 Case Acceptances, by Product Category, 1979–87

<table>
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<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>199</td>
<td>164</td>
<td>120</td>
<td>116</td>
<td>131</td>
<td>120</td>
<td>119</td>
<td>105</td>
<td>102</td>
<td>1,176</td>
</tr>
<tr>
<td>Other manufactures</td>
<td>59</td>
<td>53</td>
<td>43</td>
<td>52</td>
<td>49</td>
<td>37</td>
<td>45</td>
<td>36</td>
<td>49</td>
<td>423</td>
</tr>
<tr>
<td>Agricultural products</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>6</td>
<td>8</td>
<td>8</td>
<td>12</td>
<td>3</td>
<td>3</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: See table 4-3.
The current MFA expired in mid-1991. One element in the EC's negotiating agenda for the regime that will succeed it is how to cope with the removal of national quotas. For most developing countries—but not the Maghreb and Sub-Saharan Africa—the crucial feature of the successor regime is the overall size of any global quota: will they be able to sell more shirts and trousers after 1992 than before? For signatories of the Lomé Convention and Mediterranean Association Agreements, however, the situation is different. These countries receive better treatment under the existing regime than do most other developing countries. There are quotas under the Mediterranean Agreements, and there have been VERs imposed on ACP states, but in the main, the restrictions have been less severe, and applied less onerously, than those applying to the Asian and Latin American NICs. If the EC's clothing import regime is liberalized after 1992, this relative preference will be reduced. Moreover, to the extent that African exports are made primarily to the more protected national markets, competition may increase after removal of the national quotas.

How vulnerable are the Maghreb and Sub-Saharan Africa to such changes? The first step is to assess the relative importance of the most sensitive products in their exports to the EC. The second step is to identify how far existing exports are concentrated on the more protected EC national markets.

**The Importance of Clothing and Sensitive Manufactures.** Figure 4-1 shows Morocco and Tunisia's most important export commodities to the EC (it has not been possible to provide similar tables for Algeria). In the case of Morocco, clothing is the most important export commodity, while textiles, electrical machinery, footwear and leather, and transport equipment are all in the top 20 or so non-oil exports. In the case of Tunisia, clothing is overwhelmingly the most important export, while textiles, electrical machinery, and leather are in the top ten non-oil export commodities.

In the case of Sub-Saharan Africa, a slightly different approach is required. Apart from Mauritius, nontraditional exports, including clothing and manufactures, still form a relatively small share of total exports. Nonetheless, they have an importance that is disproportionately large and that may be missed by focusing simply on their current level. This is because a number of Sub-Saharan African states have been able to increase their exports of nontraditional goods very rapidly. Since they began from a very low base, the absolute values are still quite small, but other things being equal, the prospects for a strong continuation of these upward trends are excellent. The 1992 program, however, upsets the assumption of other things being equal.

Figures 4-2-4-4 illustrate the growth of Sub-Saharan African exports of clothing, textiles, and leather goods in the period since Lomé I was signed (or, in some cases, since 1980). Even though the number of Sub-Saharan states involved in this trade is relatively small, it is of potential interest to a much broader group. The data in figures 4-2-4-4 cover only those states that have either a fairly consistent record of exports or have emerged very recently. In addition, there is a much larger group of countries that have exported on a sporadic basis. Clearly problems exist that inhibit their full development as manufactures exporters, but they appear to have potential, provided that the constraints can be removed.

**The Concentration on National Markets.** The overconcentration of sensitive exports on a small number of the more protected EC national markets is more likely to be a problem for Sub-Saharan Africa than for the Maghreb. A significant share of Maghreb exports of clothing and textiles goes to the German market, even though France is in many cases the most important single destination. Where clothing exports are undertaken under outward-processing arrangements, the capital comes from Germany and the Netherlands, as well as France. Thus, Morocco and Tunisia could probably adjust reasonably successfully to the removal of barriers on intra-EC trade.

Greater fears have been expressed in relation to Sub-Saharan Africa. In aggregate, Sub-Saharan African exports are heavily concentrated on the traditional, ex-colonial markets,
Figure 4-1. Principal Export Commodities to EC from Morocco and Tunisia
(percent share of non-oil exports)

**Morocco (1984)**

- Fresh veg. (7%)
- Oranges/tangerines (9%)
- Inorganic chems. (6%)
- Manu. fertiliser (2%)
- Text/yarn/fabric (6%)
- Fish/preps. (5%)
- Preserved veg. (4%)
- Clothing/accessories (18%)
- Fruit prep. for preserved (2%)
- Nat. calc. phos. (18%)
- Other (20%)
- Electrical mach. NES (2%)

**Tunisia (1985)**

- Clothing/accessories (40%)
- Fish/preps. (4%)
- Others oil (7%)
- Fruit NES (3%)
- Text/yarn/fabric (5%)
- Inorganic chems. (4%)
- Leather/dress fur (2%)
- Manu. fertilisers (12%)
- Electric machinery NES (3%)
- Ref. petroleum products (3%)
- Other (18%)
Figure 4-2. Growth of Principal Sub-Saharan African Exports—Clothing
(Ecu million)

Men's and Boys' Outer Garments

- Mauritius
- Zimbabwe
- C. d'Ivoire

Men's and Boys' Outer Garments

- Lesotho
- Kenya
- Botswana
Figure 4-2. Growth of Principal Sub-Saharan African Exports—Clothing
(Ecu million)

Men's & Boys' Underwear

Mauritius
Ethiopia

Men's & Boys' Underwear

Malawi
Tanzania
Zimbabwe
Figure 4.2. Growth of Principal Sub-Saharan African Exports—Clothing

*(Ecu million)*

Ladies' and Girls' Outerwear

- Mauritius
- Zimbabwe
Figure 4-3. Growth of Principal Sub-Saharan African Exports—
Textiles
(Ecu million)

Cotton Yarn

Cotton Fabric
Figure 4-3. Growth of Principal Sub-Saharan African Exports—Textiles (Ecu million)

Man-made Yarn

Mauritius
Figure 4-4. Growth of Principal Sub-Saharan African Exports—Leather Goods
(Ecu million)

Leather Handbags

Leather Containers

Mauritius

Ethiopia
particularly France. These are also among the more protected markets. It is possible that these nascent exports of clothing, textiles, and other manufactures depend upon protection afforded by internal EC barriers, and will be hit when 1992 removes this protection.

To assess the extent of this danger, an analysis has been made of detailed trade statistics on the national destinations of Sub-Saharan exports to the EC. The analysis is concentrated on the 21 products that have featured particularly prominently in recent Sub-Saharan African exports of nontraditional goods. Nine of these are in the textiles and clothing category.

The result of this analysis is relatively encouraging. Although Sub-Saharan Africa's exports of these nontraditional goods are not evenly spread among the EC national markets (hardly any go to Greece, Spain, or Portugal, and relatively few to the Benelux countries), they are not excessively concentrated on just one or two markets. In only one-quarter of the sample did one national market receive more than two-thirds (by volume) of Sub-Saharan African exports in 1987. The picture for most products is that France is the most important single market, but is followed at not too great a distance by Germany, Italy, and the United Kingdom. This finding applies equally to clothing and textiles and to other commodities in the group. The unweighted average share of France in Sub-Saharan Africa's exports of textiles and clothing products was 37 percent, while Germany's was 22 percent; for the whole population, France's share was 27 percent and Germany's 15 percent.

CONCLUSIONS ON TRADE DIVERSION IN MANUFACTURES. Products likely to be affected by the removal of national barriers within the EC are either actually or potentially important for the Maghreb and Sub-Saharan Africa. Governments in the region should scrutinize developments in this area with great care.

While the more alarmist predictions of major increased competition for Sub-Saharan Africa are probably exaggerated, changes are bound to occur, and change always offers both potential opportunities and potential dangers. The principal source of danger for both the Maghreb and Sub-Saharan Africa is the liberalization of EC textile policy after the current MFA rather than the removal of national nontariff barriers. The key decisions and responses that will affect the Maghreb and Sub-Saharan Africa are the size of the global quota (is it effectively larger or smaller than the sum of the current national quotas); whether or not quotas are applied to specific countries, such as the East Asian NICs; and the market response of the NICs to these changes (do they simply export more of the same products or do they shift into lines that are more or less competitive with African output). Clearly, the requirement is for regular monitoring and lobbying by the Maghreb and Sub-Saharan Africa over a period of years, rather than a one-off offensive.

The Special Problem of Trade Diversion for Bananas

At present, about half the Community's banana consumption is supplied by the ACP states and by the Community itself (the French overseas department, Guadeloupe and Martinique, as well as the Canary Islands), while the other half consists of "dollar" bananas, mostly from Central and South America. The former half enters the Community under special arrangements designed to preserve traditional markets. Thus, France provides a guaranteed market for bananas from its overseas department and from Cameroon and Côte d'Ivoire. Italy and Britain provide similar guarantees for Somalia and for the English-speaking Caribbean and Suriname, respectively. For a number of these countries bananas constitute a significant share of total merchandise exports—Guadeloupe and Martinique, 50 percent; St. Vincent and the Grenadines, 40 percent; and Somalia, 20 percent—with the Community accounting for all (Martinique, Guadeloupe) or over 90 percent (St. Vincent, St. Lucia) of their banana exports.

Although the EC and ACP producers enjoy a 20 percent tariff preference over producers of dollar bananas (except in Germany where dollar bananas enter duty-free for historical reasons), it is unlikely that they could compete with the guarantees. Most of the protected
producers in the Caribbean, for example, are small-scale and relatively inefficient and, given their topographical disadvantages, even with major restructuring of the industry, their costs would remain considerably higher than those of the large plantations of Central America, Colombia, and Ecuador.

The Lomé IV Convention is likely to repeat the commitments made in its predecessors to maintain preferential access for the traditional suppliers after 1992, but the current preference margin is unlikely to be adequate to sustain their exports. Thus, to live up to these commitments the EC will have to introduce special measures that would not otherwise figure on the 1992 agenda. Identifying a substantial number of mechanisms that would have the required effect is possible, although each of them suffers from political problems and some are economically less desirable than others. Thus, identifying which from this list the EC will find it politically easiest to adopt is not possible, but we can state categorically that technically feasible measures do exist that would enable the traditional suppliers of France, the United Kingdom, and Italy to continue to export bananas to the EC provided that the Community exhibits the necessary political will. The options include:

- **Raising the common external tariff to a level that would provide adequate protection to traditional suppliers.** This would have to be negotiated internationally since the tariff is bound in the GATT. Not only would this raise major negotiating problems, but it would also set a precedent that would have undesirable consequences (for example, in the context of the EC oilseeds regime). Equally, it would result in a significant increase in the cost of supplying bananas to Germany, and, therefore, the German government is likely to oppose it.

- **Adapting the system currently used by the Community for oilseeds.** The system involves countervailing payments to processors to offset the costs they incur in using higher-priced sources of supply. In the case of oilseeds, the high-priced raw materials are those produced within the Community; the payment is made to EC oil processors to encourage them to use European rather than imported seeds. In the case of bananas, a similar payment would be required to the small number of large firms that supply the French, United Kingdom, and Italian markets, but the purpose would be to favor one group of non-European suppliers against another. As such, the system would encounter more strenuous political opposition from within the Community, particularly in respect of its impact on the EC budget, than does the oilseed regime. It would also be contrary to the GATT rules.

- **Using aid funds to assist the beneficiaries of the Banana Protocol to overcome the consequences of its removal.** This could involve a combination of investment in production to reduce costs, assistance to diversify into new export commodities, and direct compensation for the loss of export revenues. While such measures are superficially attractive, and could well be provided as an addition to the protocol, they are unlikely to be a satisfactory alternative. The Caribbean producers, at least, are unlikely to become competitive with those in Central America, while the loss of banana exports will make diversification more, rather than less, difficult. Above all, like many such aid compensation proposals, the scale of resources required is likely to be far in excess of current aid flows.

- **Temporary palliatives.** Given the political difficulties associated with most of the schemes that would provide a permanent solution to the problem, the Community may tend to adopt “temporary” measures. One obvious way to avoid confronting the problem would be to grant derogations allowing the United Kingdom, France, and Italy to continue to use Article 115 in respect of bananas only for a specified period of time. The perishability of the commodity and the oligopolistic nature of the trade make the retention of national controls more viable than for most commodities.
Sugar illustrates the way in which a set of measures, only some of which are directly related to 1992, may affect third countries. The problems for sugar do not arise from any change in EC law as such, and the Sugar Protocol, under which ACP states export a quota of sugar to the EC at internal prices, has not been the subject of negotiation in Lomé IV. However, it is a problem that looms on the horizon and should be taken into account by the Sub-Saharan states that have a quotas, namely, the Côte d’Ivoire, the People’s Republic of the Congo, Madagascar, Malawi, Mauritius, Swaziland, and Zimbabwe.

Part of the problem arises from the Sugar Protocol’s dependence on the maintenance of a genuine demand for cane sugar in the EC market. At present, this demand is based primarily in the United Kingdom, where a single company, Tate and Lyle, refines most ACP cane sugar. Given the surplus supply in the EC, the maintenance of a market for cane sugar is a delicate operation. In the past, the U.K. market has seen periods of fierce competition between Tate and Lyle and the main beet suppliers, British Sugar Corporation. There is nothing to prevent sugar from continental Europe being marketed in the United Kingdom and thus setting off a renewed bout of competition, but the combination of border formalities and cross-Channel transshipment costs has kept such trade to a low level.

After 1992, and especially after 1993 with the completion of the Channel Tunnel, moving sugar from, say, northern France and Belgium into southeast England will be much simpler, and cheaper. This could set off a battle for market shares that would drive cane sugar out of the market. Although the Sugar Protocol, which is of unlimited duration, would remain intact, its main raison d’être would have been removed.

Another part of the problem is linked to the “green currency” system within Europe. As explained in the paper by Matthews, the 1992 exercise may be accompanied by changes to the arrangements for monetary compensation amounts (MCAs). Since the ACP Sugar Protocol signatories are beneficiaries of the present system, a removal or scaling down of MCAs could be to their disadvantage.

Since 1984, the ACP countries have experienced a windfall gain from the workings of Europe’s green currency system. They have been the unintended beneficiaries of an instrument known as the “agricultural (or switchover) coefficient.” Given the appalling complexity of the green currency system, explaining how this has come about may be helpful.

EC farm prices are established in ECU, but payments are actually made in the appropriate national currency. In the case of ACP sugar exports, the currency of payment is normally sterling. The exchange rate used to convert from ECU into national currencies is not the market rate but a special “green rate” designed to cushion farmers from part of the variations between national currencies. Because the relationship between green rates is not the same as between market currency rates, the internal price for sugar (and other CAP products) differs from one EC state to another. To avoid intra-EC trade being affected by these differences, the Community applies border taxes, known as MCAs, that offset these price distortions.

The MCAs applicable to member states with prices above the common price are known as positive MCAs, and those for countries with lower prices are negative MCAs. If this system worked perfectly, the price the ACP countries received for sugar would be equal to the price received in an EC state with a zero MCA (the zero MCA price).

The EC’s objective is to move toward the harmonization of prices, which involves, among other things, the reduction of MCAs. Since raising below-average prices is politically easier than cutting above-average ones, removing negative MCAs is easier than removing positive ones. Germany has the largest positive MCA, and as the mark has been revalued against other European currencies, the tendency would have been for the size of its MCA to increase.

To avoid an increase in positive MCAs, the EC changed the system in 1984 by introducing agricultural coefficients. This was a largely political act designed to ensure
that further revaluations of the mark would tend to increase the negative MCAs applying to the Nine rather than the positive MCA applying to Germany. The effect was simply to alter the relationship between the national prices and the zero MCA price, while leaving the absolute level of the former unchanged. Currency realignments since 1984 have been accommodated by increasing the zero MCA price by an agricultural coefficient while offsetting this for each member state, either by increasing its negative MCA or reducing its positive MCA.

The ACP countries have been the unintended beneficiaries of this system because they gain from the increase in the zero MCA price without having the clawback through the green currency system. The size of the agricultural coefficient was changed seven times between 1984 and 1987, rising from 3.4 percent to 12.6 percent. In other words, cane producers supplying the U.K. market in 1987 received about one-eighth more than did beet producers.

Clearly, if MCAs are abolished and a single price for sugar applies throughout the Community, the ACP countries will lose their current preference. Whether the price they actually receive goes up or down depends, as explained in the Matthews paper, on whether the common price finally adopted is higher or lower than the current U.K. price, plus the agricultural coefficient.

Conclusions

The Maghreb and, especially, Sub-Saharan Africa, are likely to be less directly affected than other developing countries by many of the potentially adverse effects of 1992 that have received most publicity. In particular, they have less to fear from "Fortress Europe" than do the Asian and Latin American NICs and MICs. But, by the same token, they can also look forward to fewer potential gains. If 1992 really does result in a new surge of European growth and higher imports, these are likely to be predominantly manufactures rather than the primary commodity exports of Sub-Saharan Africa. Any gains that do accrue to Africa (north and south) will have to be offset against losses due to increased competition arising from the reduction of preference after the EC's internal barriers have been broken down.

The strategy for the Maghreb and Sub-Saharan Africa is to lobby for those aspects of the 1992 agenda most likely to bring gains, and for potentially adverse changes to be drafted in such a way as to minimize their impact on traditional links. Specifically, this would include lobbying in favor of:

- reducing high excise taxes on the products that they export, notably coffee;
- introducing standards that differentiate between chocolate with a high cocoa content and other confectionery;
- increasing access for the CAP products that they currently export (notably sugar and horticultural products) to offset any loss of revenue resulting from CAP reforms;
- maintaining traditional markets for bananas in France, Italy, and the United Kingdom;
- introducing EC-wide procurement for European bilateral aid.

It would also include lobbying to safeguard interests in:

- the successor regime for the MFA;
- the moves to establish a common immigration policy;
- the changes to foreign investment arrangements.

This paper has dealt largely with the first two elements of the 1992 program, aimed at removing barriers at frontiers and the barriers within. It has paid little attention to the grand visions for the obvious reason that they are still too vague to be analyzed in detail. Yet, in the long run, it may be this broader aspect of the resurgence of European internal
dynamism that has the greatest impact on Africa. It may reduce the relative, if not the absolute, level of European interest in the world outside.

In the period when "Euro-sclerosis" was the catchword, development policy was advanced as one of the more substantial vehicles for demonstrating European unity. A former commissioner for development, Edgard Pisani, even described the policy toward developing countries' as a "cornerstone of European integration." It is symptomatic of the subsequent change that development is now not even the exclusive concern of one commissioner. Manuel Marin holds the portfolios of both development cooperation for the ACP countries and fisheries, the latter a subject of considerable concern to his native Spain, while another Spanish EC commissioner, Abel Matutes, is in charge of relations with the rest of the developing countries, including the Maghreb. The recent changes in Eastern Europe have added yet another area of competition for EC interest.

If EC concern with the world outside geographical Europe plus North America and Japan declines, Sub-Saharan Africa is likely to be affected more severely than the Maghreb. The Maghreb, which after all shares the Mediterranean with Europe among others, has a significant strategic interest for the EC that does not necessarily apply to the rest of Africa. This is the perspective of 2002, but it is one that should be somewhere in the background when focusing on 1992.
Almost the only reference in the Cecchini Report (Cecchini 1988) to effects of 1992 on the rest of the world is the avowal that "[A] dynamic European market, trading with the world on a footing of revamped competitiveness, will provide a much-needed shot in the arm for other markets and economies in less buoyant shape" (p. 19).

This is less than half the story. Certainly increased incomes in the Community generated by the integration of the market will tend to increase imports of goods and services. But the effects of 1992 on the outside world will be considerably more complex and more ambiguous. At this stage being precise about the impact on the developing countries is hard. First, the internal gains and the external impacts of the program depend on the response of the EC economy to the opportunities that integration will provide. Second, crucial decisions about how the program is to be implemented have still to be taken. A number of directives in the 1992 program have still not been tabled by the commission, including, for example, an area of interest to the developing countries, that of manufactured food. However, the underlying assumption of this paper is that the integration of the Community market will be fully achieved along the lines of the 1985 White Paper.

This paper looks at the impact of 1992 on Community imports of manufactures from the developing countries in terms of, first, trade creation and trade diversion, and second, the elimination of member-state quantitative import controls, the establishment of EC-wide standards, and the threat that some of the burden of adjustment to the more competitive climate after 1992 will be shifted to exporting countries outside the Community.

The implications of 1992 for trade in services can to some extent be subjected to the same analytical structure. The concepts of trade diversion and trade creation are also relevant to services. However, the issues are sufficiently different that treating services in a separate section is useful. Finally, the paper examines the particular situation of the Maghreb and a number of Sub-Saharan countries in terms of the impact of the 1992 program.

**Trade Creation and Trade Diversion**

The concept of a single market is founded on the belief that the Community must make a quantum leap in productivity and competitiveness if it is to compete effectively with the United States, Japan, and the newly industrializing countries (NICs). However, this also means an improvement in competitiveness compared with the other developing country exporters. Other things being equal, this would mean a further redirection of trade away...
from traditional suppliers and toward partner EC members, analogous to the redirection that occurred after the initial elimination of internal tariffs. This is the trade diversion or price effect of 1992. For mineral and agricultural raw materials that the Community cannot produce, trade creation will be dominant. However, for manufactured goods the balance of trade creation and diversion is not a priori obvious.

The commission estimates the direct effect of the removal of barriers, mainly through eliminating customs procedures on internal trade and opening up public procurement, will be a 10 percent or so reduction in manufactured imports from the rest of the world. However, the commission study of the sectoral impact of 1992 did not estimate trade diversion arising from the dynamic effects, the economies of scale, and other technical efficiencies from restructuring; the elimination of X-inefficiency; and the other effects of enhanced competition (commission 1988). But the commission's estimate of the Community growth impact of these dynamic effects is at least equal to that of the impetus to growth of the static effects.

How much these indirect effects will redirect EC purchases from developing country suppliers to EC suppliers is speculative. To the extent that redirection is concentrated on products with high potential economies of scale, this import replacement effect will be felt most acutely by other developed countries. The manufactured exports of the developing countries are largely in clothing, footwear, leather goods, electronic components, and toys, where economies of scale are limited. However, significant replacement could take place in steel and steel products, other metal products, chemicals, and fertilizers. Clearly, a study of trade diversion by detailed product group is required. In the meantime, raising the estimate of trade diversion in manufactures from the developing countries to 15 percent to cover the indirect effects seems appropriate.

The commission study argues that the 1992 program will boost EC GDP by 4.5 to 7 percent, depending on the accompanying policies the member states adopt. This assumes that the program is fully implemented. Taking an import elasticity of three, the trade-creation effect on the developing country's manufactured exports of, say a 5 percent increase in Community GDP, would be about 15 percent. Thus, pending further detailed estimates at a sectoral level, probably the best assumption is that trade creation and trade diversion in the developing countries' manufactures will be roughly offsetting.

However, even this inference may be too optimistic as regards the developing countries. It ignores one particularly important factor: the diversion of direct investment from the developing countries toward the Community by both Community firms and firms in other industrialized countries. This diversion will be stimulated by the cost advantages of working within the integrated market, by fears of protectionism, and by competition among the member states for direct investment. Much of the investment will take place in Portugal and Spain, where labor costs are attractive. However, in many industries, with increases in capital intensity, relative labor costs are becoming less critical. The availability of the appropriate mixture of skills, a good track record for labor relations, development sites with the necessary infrastructure and possibly investment subsidies, and good conditions for expatriate management all play an increasingly important role.

1. It has become the practice to use the term "trade diversion" to refer to the total displacement of imports from suppliers outside the EC to those within, regardless of whether that displacement is directly occasioned by the elimination of intra-EC barriers (trade diversion in the classical trade theory sense) or other 1992-related cost reductions in the EC. The term trade creation refers to the increase in extra-EC imports stimulated by the rise in EC output or income, not in the strict trade-theoretic sense of intra-customs-union trade stimulated by the price effects of removing barriers.

2. Langhammer (1989) uses an elasticity of five for all imports from the developing countries into the EC. Econometric estimates of the import elasticity of demand for the developing countries' manufactures range from two to four, (see table 4 in Matthews and McAleese 1989). There are many more estimates of industrial countries' income elasticities for manufactured imports in total. Most of these range from 1 to 2.5 (Goldstein and Khan 1985). It is not clear why the elasticities for developing countries' manufactures should be so much higher.
In these areas the developing countries will find it hard to compete. This is going to increase the developing countries' problems of access to international risk capital and up-to-date technology and lower their competitiveness in manufactured goods.

**Effects of Eliminating Article 115**

The quantitative restraints (QRs) on imports must be separated into those established under the umbrella of the Multi-Fibre Agreement and the hodgepodge of other QRs that have been set up independently by the member states, in some cases before they joined the EC. In both cases they depend to varying degrees on the use of Article 115, which allows member states to suspend free circulation of goods within the Community where outside exporters are circumventing, or threatening to circumvent, member-state quotas by transshipping goods through another member-state. Article 115 will no longer be in force once internal border controls are removed.

**The Multi-Fibre Agreement**

Traditionally the production of clothing and textiles has been the entrée into manufacturing for developing countries. However, this route has long been made more difficult by the Multi-Fibre Agreement (MFA), through which the Community, the United States, and most other developed countries regulate the developing countries' imports to protect their domestic industries. The present Community MFA (MFA IV) is particularly complex in that the quotas are generally subdivided into EC member-state shares. These quotas cover the imports of up to 93 products from each of 17 developing economies (including China and Taiwan, which were not MFA signatories) and 5 centrally planned economies, although earlier MFAs included several additional developing countries.

The MFA's future is closely bound up with the Uruguay Round of trade negotiations. The textiles negotiating group is to propose ways of bringing these products back under GATT. The Community may insist on more effective and supplier-specific safeguard mechanisms to control "market disruption." Whatever the outcome of the negotiations on the MFA, reintegrating these sectors into the GATT will take some years. In any event, it cannot be achieved before the current MFA expires in mid-1992, so examining whether the 1992 program will have a significant impact on the supplier countries, pending the possible dismantling of the MFA system, is an interesting exercise.

Under the new MFA (although it may be called something else to emphasize its transitional nature), EC quotas are likely to be retained while member-state shares (or subquotas) are abolished. The present division of EC quotas into member-state shares depends on the existence of intra-Community border controls. Article 115 is invoked to prevent the "deflection" of textiles and clothing more often than for all other commodities combined.

Abolishing member-state subquotas without adjusting EC quotas would mean some liberalization, since each exporting country could exploit its EC quotas more intensively. Currently certain subquotas remain underutilized, but there are restrictions on the extent to which an unused portion can be transferred to a member whose quota is filled. However, not all the exporting countries are now constrained by quota for all MFA products. In some cases an EC quota might be introduced where one did not exist in the past. Moreover, if the commission were administering the quotas rather than the member states, they might be more strictly enforced than at present.

For this paper, an exercise was carried out to estimate the effects of abolishing member-state shares while holding EC quotas at their existing (1987) levels. In those cases where a

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3. Several other developing countries are restricted through different mechanisms. In particular, Turkey and the North African suppliers are limited through their Association and Cooperation Agreements with the Community, but they are only subject to Community quotas.
supplier was given a quota only for a limited number of member states, the exercise assumed that an EC quota was set equal to the sum of any existing member-state quotas and, where there was no EC quota, the level of imports in 1987.

Table 5-1 shows what would have happened if member-state subquotas had not existed in 1988, under two alternative assumptions about the amount that imports in the constrained member-state markets would have expanded. The third column shows the initial level of exporter-country utilization of its total EC quotas, while the fourth column shows how much greater the total volume of MFA exports of each exporting country would have been if the imports in those member states where the subquota was binding had expanded by a maximum of 10 percent or by whatever smaller percentage would be allowed by the unused EC quotas. The fifth column shows the resulting overall utilization. The final two columns show what would have happened, under the same assumptions, if the maximum volume of member-state imports had risen by 25 percent.

### Table 5-1. Potential Growth in MFA Products Following the Elimination of Member-State Shares, Based on 1988 Imports (percent)

<table>
<thead>
<tr>
<th>Economy</th>
<th>1988 tonnes</th>
<th>Initial utilization</th>
<th>Growth of 10%(a)</th>
<th>Final utilization</th>
<th>Growth of 25%(b)</th>
<th>Final utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peru</td>
<td>9,114</td>
<td>81.7</td>
<td>3.5</td>
<td>84.6</td>
<td>8.7</td>
<td>88.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>61,865</td>
<td>73.8</td>
<td>4.0</td>
<td>76.8</td>
<td>5.2</td>
<td>77.7</td>
</tr>
<tr>
<td>Argentina</td>
<td>8,707</td>
<td>31.8</td>
<td>1.8</td>
<td>32.4</td>
<td>4.5</td>
<td>33.2</td>
</tr>
<tr>
<td>Pakistan</td>
<td>85,656</td>
<td>90.2</td>
<td>1.7</td>
<td>91.7</td>
<td>1.9</td>
<td>91.9</td>
</tr>
<tr>
<td>India</td>
<td>73,036</td>
<td>82.5</td>
<td>3.9</td>
<td>85.7</td>
<td>4.5</td>
<td>86.2</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>4,015</td>
<td>85.8</td>
<td>5.1</td>
<td>90.2</td>
<td>11.9</td>
<td>96.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>50,008</td>
<td>65.3</td>
<td>3.7</td>
<td>67.7</td>
<td>8.0</td>
<td>70.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>8,317</td>
<td>86.8</td>
<td>2.7</td>
<td>89.2</td>
<td>4.4</td>
<td>90.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>19,674</td>
<td>51.3</td>
<td>1.1</td>
<td>51.9</td>
<td>2.7</td>
<td>52.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>8,924</td>
<td>57.9</td>
<td>2.3</td>
<td>59.3</td>
<td>5.8</td>
<td>61.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>8,075</td>
<td>72.3</td>
<td>3.3</td>
<td>74.6</td>
<td>7.0</td>
<td>77.3</td>
</tr>
<tr>
<td>Korea</td>
<td>102,114</td>
<td>81.0</td>
<td>3.0</td>
<td>83.4</td>
<td>4.0</td>
<td>84.2</td>
</tr>
<tr>
<td>Taiwan, China</td>
<td>62,925</td>
<td>72.2</td>
<td>3.4</td>
<td>74.6</td>
<td>6.8</td>
<td>77.1</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>87,432</td>
<td>74.5</td>
<td>2.6</td>
<td>76.4</td>
<td>5.3</td>
<td>78.4</td>
</tr>
<tr>
<td>Macao</td>
<td>22,458</td>
<td>75.2</td>
<td>3.3</td>
<td>77.9</td>
<td>5.9</td>
<td>79.7</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>20,394</td>
<td>73.0</td>
<td>5.1</td>
<td>76.7</td>
<td>12.2</td>
<td>81.9</td>
</tr>
<tr>
<td>China</td>
<td>71,253</td>
<td>74.4</td>
<td>2.8</td>
<td>76.5</td>
<td>5.8</td>
<td>78.7</td>
</tr>
</tbody>
</table>

| Averages     | 76.1        | 3.1                 | 78.4                | 5.2               | 80.0              |

- **a.** Assumes that exports to member state with binding subquotas in 1988 would expand by up to 10 percent, subject to overall EC quotas. See text for further assumptions.
- **b.** Assumes that exports to member states with binding subquotas in 1988 would expand by up to 25 percent, subject to overall EC quotas.

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4. To allow for inevitable information deficiencies, timing problems, and so on, the table assumes any member state with a utilization rate of 95 percent or more was quota-constrained. The import data cover the period January 1, 1987 to March 31, 1988 since, in the first three months of the year, imports may be counted against the previous years quota.
The choice of 10 percent for the increase in the sales of quota-restricted imports is clearly arbitrary. It was suggested by a comparison of the growth rates of the volumes of imports of products subject to binding and to nonbinding EC quotas. Between 1981 and 1987, the volume of the former rose 37 percent, while that of the latter rose 48 percent. However, member-state subquotas might be more restrictive in their effect than EC quotas as a whole appear to be, since the degree of utilization of the latter averages out the differences in utilization between individual member states. Thus, the exercise was repeated using an assumption of a 25 percent growth where binding member-state subquotas are eliminated.

The calculations have overall exports of MFA goods from the developing countries subject to MFA quotas rising 3.1 percent using the 10 percent volume growth assumption and 5.2 percent under the 25 percent assumption. In the latter case, the growth of imports will be limited by the overall EC quotas more often than in the former, and thus the aggregate rise in imports is less than twice that derived under the former assumption. The exporting countries most likely to benefit from the elimination of member-state shares are Brazil, Sri Lanka, the former Yugoslavia, and, possibly, Peru, the Philippines, and Thailand. For Sri Lanka and Thailand, textiles and clothing are particularly important components of total merchandise exports, constituting 8 percent (1984) and 6 percent (1985) respectively. The total increase of imports at 1987 prices would have been between 328 and 550 million ECUs, almost 3 to 5 percent of developing countries' total exports of textiles and clothing to the Community in 1988. If the Asian NICs are excluded, the upper limit of the range rises to 6 percent.

These computations ignore the fact that in any particular product market, the unconstrained suppliers, as well as the member-state domestic industry, are able to enjoy higher sales than they would in the absence of constraints on other suppliers. Judging the significance of this is difficult, but given that member-state shares have evolved so as to limit the overall level of import penetration by targeting the most competitive suppliers of each product, the offsetting reduction in other developing countries' supplies is likely to be fairly minor. This effect will be concentrated on the least-restricted suppliers, which tend to have the greater gains in the calculations. In this context, Erzan, Goto, and Holmes (1989) suggest that the Mediterranean countries' exports may have gained from the EC MFA restrictions as a whole. To the extent these restrictions are marginally eased through dropping the member-country shares, these suppliers may stand to lose a little.

More generally, when member-state shares are removed, textile and clothing suppliers, including domestic suppliers, will be in competition for markets that are currently restricted. Already certain suppliers, particularly those in the Republic of Korea and Hong Kong, are setting up factories elsewhere, to some extent to take advantage of underutilized quotas, but in large part because their own rising labor costs are making domestic production less competitive. Among the list of the suppliers most likely to benefit based on the calculations described above, Peru, and possibly Brazil, may suffer relative labor cost problems.

The calculations, even though they could clearly be refined, do point to a relatively minor overall impact. For a number of exporting countries the elimination of member-state quotas could yield a significant gain, roughly equivalent to the average volume growth experienced during the 1980s. For most suppliers, and for the developing countries as a whole, however, the gains are positive, but are likely to be relatively modest and rather less than the annual volume increases recorded over recent years. From 1981–1987, the annual average change in the volume of EC imports of textile products from the developing countries was 5.4 percent for products under binding quotas and 6.7 percent for products under nonbinding quotas (Erzan, Goto, and Holmes 1989). Of course, this is a reason for the Community to adopt a determined stance against industry pressures, particularly from the southern member states, who are arguing against any liberalization.
Other Quantitative Restrictions

There is no authoritative list of member-state QRs, although for the surveillance or suspension of intra-Community imports under Article 115, the commission has had to approve QRs. The commission (Official Journal, February 9, 1985) has published a list of national QRs that had been notified. However, apart from being very out-of-date, there is no way of determining which of the QRs were binding at that time or binding when they were notified. Clearly member states may wish to keep QRs on the books so that they are available should there be demands for import limitation, although in a number of cases, some of the listed QRs have been formally rescinded. The United Kingdom government claims to have revoked all QRs other than on footwear, leather gloves, ceramics, hats, television sets, and matches imported from various Eastern European countries and China, and ceramics from Vietnam.

One of the advantages of voluntarily negotiated quantitative export restraint (VER) agreements is that they are not subject to legislative scrutiny, or even the requirement of publication. If member-state VERs are now effective without recourse to Article 115, either because the gains from transshipment through another member state are not commensurate with the extra costs, or simply because the exporting country would rather maintain its existing market (and possibly enjoy quota rents) than risk further restrictions on access in that or other exports, then they may survive the opening-up of borders.5

Applications for the suspension of free circulation under Article 115 provide some guide to those officially recognized quantitative import controls that are currently binding. Table 5-2 lists applications for Article 115 protection in 1988 and the first seven months of 1989 that were directed at the developing countries' exports. The table shows that during this period, except for textiles, clothing, and bananas, Article 115 was used to restrict imports from the NICs, predominantly the Asian NICs, and China. The range of products involved was wide and a little bizarre. To explain the presence of such diverse items as imitation jewelry, slide fasteners, and brooms and brushes, a study of the influence of industrial lobbies in the member states would be needed.

The commission suggests that many QRs can simply be abolished because EC industry could withstand the extra competition, at least after further restructuring. This is apparently consistent with the halving of applications for Article 115 during the last ten years, although this reduction may partly be the result of third countries realizing that deflection will be frustrated, particularly since member states may now apply to the commission for “surveillance.” This means that import licenses must be obtained for each shipment, and is a clear signal that further deflection will lead to suspension under Article 115.

The developing country's exports for which Community QRs appear most likely are footwear, consumer electronics, and ceramic tableware. Replacing existing bilateral quotas by EC quotas would generally mean an extension of protection, since imports into all 12 member states would be covered. Footwear imports from Korea, Taiwan, and China are subjected to quotas by various member states. For example, Taiwanese footwear is constrained by at least France, Italy, and Ireland, although there are also the unofficial quotas on U.K. imports.

However, EC industry argues that quotas must be placed on all developing country suppliers, since Taiwan and Korea are establishing plants in Thailand and China to circumvent existing restrictions. The major beneficiaries of VERs would be Italy, followed by Spain and Portugal. Among third countries, India and Brazil would gain if their exports were not themselves constrained, as would the United States and Hungary.

5. The possibility that certain QRs or VRAs are enforced at intra-Community borders without the use of Article 115, although contrary to the Rome Treaty, cannot be excluded, since it would not necessarily be in the interest of the original exporter to complain. Here information is totally lacking.
Table 5-2. Manufactures of Developing Economies Subject to Article 115 in 1988 and January through July 1989, Excluding Bananas, Textiles, and Clothing

<table>
<thead>
<tr>
<th>EC country</th>
<th>Product</th>
<th>Exporter</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>Footware</td>
<td>Taiwan</td>
</tr>
<tr>
<td></td>
<td>Slippers</td>
<td>China</td>
</tr>
<tr>
<td></td>
<td>Umbrellas</td>
<td>Taiwan, Singapore, China</td>
</tr>
<tr>
<td></td>
<td>Toys</td>
<td>China</td>
</tr>
<tr>
<td></td>
<td>Car radios</td>
<td>Korea, Taiwan</td>
</tr>
<tr>
<td></td>
<td>Televisions</td>
<td>Korea, Taiwan</td>
</tr>
<tr>
<td>Italy</td>
<td>Footware</td>
<td>Korea, Taiwan</td>
</tr>
<tr>
<td></td>
<td>Silk</td>
<td>China</td>
</tr>
<tr>
<td>Spain</td>
<td>Umbrellas</td>
<td>Taiwan</td>
</tr>
<tr>
<td></td>
<td>Handtools</td>
<td>China, Taiwan, Hong Kong</td>
</tr>
<tr>
<td></td>
<td>Sewing machines</td>
<td>Brazil, Korea, Taiwan</td>
</tr>
<tr>
<td></td>
<td>Televisions</td>
<td>Korea</td>
</tr>
<tr>
<td></td>
<td>Slide fasteners</td>
<td>Taiwan</td>
</tr>
<tr>
<td></td>
<td>Video recorders</td>
<td>Korea</td>
</tr>
<tr>
<td></td>
<td>Imitation jewelry</td>
<td>Korea</td>
</tr>
<tr>
<td></td>
<td>Cars</td>
<td>Korea</td>
</tr>
<tr>
<td>Spain</td>
<td>Umbrellas</td>
<td>Taiwan</td>
</tr>
<tr>
<td></td>
<td>Handtools</td>
<td>China, Taiwan, Hong Kong</td>
</tr>
<tr>
<td></td>
<td>Radio aerials</td>
<td>China, Korea, Taiwan</td>
</tr>
<tr>
<td></td>
<td>Televisions</td>
<td>China</td>
</tr>
<tr>
<td>Greece</td>
<td>Electric motors</td>
<td>Taiwan, Hong Kong</td>
</tr>
<tr>
<td></td>
<td>Batteries</td>
<td>Taiwan, Hong Kong</td>
</tr>
<tr>
<td></td>
<td>Electric transformers</td>
<td>Taiwan, Hong Kong</td>
</tr>
<tr>
<td></td>
<td>Toys</td>
<td>Taiwan, Hong Kong</td>
</tr>
<tr>
<td>Ireland</td>
<td>Footwear</td>
<td>Taiwan</td>
</tr>
<tr>
<td></td>
<td>Tableware</td>
<td>China</td>
</tr>
<tr>
<td>Italy</td>
<td>Silk</td>
<td>China</td>
</tr>
<tr>
<td></td>
<td>Slide Fasteners</td>
<td>Taiwan</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Leather Gloves</td>
<td>China</td>
</tr>
<tr>
<td></td>
<td>Footwear</td>
<td>China</td>
</tr>
<tr>
<td></td>
<td>Tableware</td>
<td>China</td>
</tr>
<tr>
<td></td>
<td>Color televisions</td>
<td>China</td>
</tr>
</tbody>
</table>

*Excluding surveillance allowed to Spain and Portugal under transitional arrangements.*

*Source: Commission reports.*

Taiwan may find that it has to accept VERs on its consumer electronics exports. Korea already “voluntarily” restricts exports of the most sensitive items, and Taiwan is likely to be pressured to do likewise, although its EC market share is much lower (for color televisions 6 percent against Korea’s 15 percent). Individual EC states will also exert pressure for quotas on other goods. For example, France would like to see car radios within
the net. VERs on ceramics would be primarily directed at Eastern Europe, although China is a significant exporter to the Community and would likely be subject to restrictions.

**Approximation of Technical Standards**

Certain developing countries have expressed fears that their exports will be unable to meet new EC standards, which may be higher than those currently in force in certain member states. Most of the proposals concern manufactured goods that are not, at least at present, significant developing country exports. Toys are an important exception for Southeast Asia, and these will be subject to the directive on toy safety. New producers will have an advantage in meeting tighter standards. For the established suppliers the edge will lie with those who can adapt their products quickly and cost-effectively, and in this respect, whether EC producers are better placed than outsiders is not clear.

In the area of manufactured goods, two potentially important directives are in the pipeline. The meat product proposal will probably lead to a requirement for Community licensing of both slaughterhouses and processing plants in all third-country suppliers. The other is the expected framework proposal on food hygiene. Until the details are published, determining what difficulties the directives pose for developing country exporters is difficult. Neither is expected to raise widespread problems. Any difficulties are likely to be limited to a few suppliers, but could be significant to the countries involved. Proposals for directives concerning plant and fish health and related human health matters are currently due from the commission. These could create difficulties for certain developing countries, but they lie outside the scope of this paper.

Common rules on labeling will simplify the present situation, where different member states require different information, but could in some cases impose relatively higher costs on developing country exporters. However, for most products, the 1992 requirement is mutual recognition. Domestic producers are not subjected to testing or certification procedures, and exporters from outside will only have to satisfy the requirements on one member state, and any tests they are subjected to and certificates of conformity will be valid throughout the EC.

However, two nagging worries remain. In many cases outside producers will still be required to obtain those tests and certificates and, in the process, could come up against delays and bureaucratic harassment. Second, there is plenty of scope for bureaucratic protectionism by customs officials, who will have to determine whether a particular shipment is covered by a certificate issued by another member state.

**Community Trade Policy**

EC ministers and Brussels commissioners have dismissed the concept of Fortress Europe as unthinkable, yet their avowals of openness and respect for liberal trading principles have not quieted the anxieties of the outside world. The coincidence of the Uruguay Round with the run-up to 1992 will help ensure that overt moves toward increased protection by the Community will be strongly resisted both inside and outside the Community.

However, on the microeconomic level there is always the temptation to shift the burden of adjustment onto imports. Integration will accelerate the process of structural change through the loss of Article 115, through increased labor mobility, and through broad industrial rationalization and relocation. The Community could easily use the 1992 program as a rationale for restricting competition from outside. Commission officials have stressed that third countries will benefit from the creation of the internal market and are expected to undertake reciprocal action to open their markets to Community exports.

Like voluntary export restraints, antidumping actions—one often leads to the other—have the advantage that they can be applied without going through national legislatures or attracting much public attention. The recent spate of antidumping investigations suggests
that 1992 may have already intensified resort to this instrument. EC industry will continue to pressure the commission, with support from sympathetic member governments, to preempt the "unfair" advantages that 1992 may give to to outside producers by restricting their market access. The pressure will not end on January 1, 1993. When a Community industry is in trouble, the temptation will be to blame imports from third countries and to demand further protection.

A number of writers have discussed the commission's use of antidumping actions as a protective device (Davenport 1989; Hindley 1988, Messerlin 1987, 1988; Finger 1987; Piontek 1987; Norall 1986). The lack of precision in Article VI of the GATT and the GATT Dumping Code has made antidumping actions easier. The commission argues that its own regulations are consistent with the GATT. That may be so in a legalistic sense. In any event, the Community regulations are drawn up in such a way as to bias any dumping investigation and any subsequent review in favor of a positive result.

The data in table 5-3 show that the number of antidumping actions against the developing countries has risen significantly in recent years. The Community has imposed antidumping duties on steel from Brazil and Mexico, video cassette recorders from Korea, and paint brushes from China. In the early 1980s, actions against firms in the developing countries concentrated on chemicals, steel products, and building materials and affected primarily the countries of South America. Since then the trend has been turned against exporters of high-technology products. High-technology products have taken a rising share of imports, and with that antidumping proceedings over the last few years. Initially they were mainly directed at Japanese companies. Now actions are being increasingly aimed at the Asian NICs.

Table 5-3. EC Antidumping Cases by Exporting Countries and Year of Initiation

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrialized countries</td>
<td>13</td>
<td>9</td>
<td>21</td>
<td>13</td>
<td>17</td>
<td>9</td>
<td>1</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>Developing countries</td>
<td>10</td>
<td>6</td>
<td>18</td>
<td>12</td>
<td>9</td>
<td>18</td>
<td>16</td>
<td>22</td>
<td>23</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>ASEAN NICs</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>4</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Nonmarket countries</td>
<td>2</td>
<td>33</td>
<td>19</td>
<td>13</td>
<td>23</td>
<td>9</td>
<td>7</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Total number</td>
<td>25</td>
<td>48</td>
<td>58</td>
<td>38</td>
<td>49</td>
<td>36</td>
<td>24</td>
<td>39</td>
<td>42</td>
</tr>
</tbody>
</table>

Source: Annual reports of the Commission on the Community's antidumping and antisubsidy activities, various years; official journal, various numbers.

Antidumping actions present a particularly effective way of tackling post-1992 adjustment problems and imposing the costs of adjustment onto the outside world. Antidumping actions can be effected quickly; indeed, provisional duties can be imposed immediately. Decisions about which complaints to pursue are primarily in commission hands. The investigating rules are set up so that they generally produce the desired outcome. Then, the commission either imposes a definitive duty or opens negotiations with the exporting firm to elicit the appropriate response in the form of a price undertaking, VER, or both. On top of all these advantages, commission officials and national politicians can claim that they are only trying to protect jobs from unfair trading practices.

The only major difficulty with antidumping actions has been that they have to be initiated against individual exporting firms. This raises administrative problems when
hundreds of individual exporters are involved as, for example, in shoes, clothing, and leather goods. In these cases, the multiplicity of products and rapid changes in fashion exacerbate the difficulties. The Community is now arguing for adjustments to the GATT code on antidumping to make it possible to initiate actions against groups of companies and otherwise facilitate antidumping actions in these sectors.

**Trade in Services**

The principal difficulty in assessing the importance of 1992 to developing countries' exports of services is the absence of bilateral data on services trade. The GATT Secretariat has recently published some data on world trade in services, primarily on the basis of balance of payments data reported to the IMF (GATT 1989). The data consist of exports and imports of commercial services by country, disaggregated into five components. However, the statistical problems are immense, partly because of the differences between countries in the definition of a traded service, and partly because there is no equivalent of customs data that records transactions at borders. In general, services trade statistics are biased downward.

Seven developing economies appear in the GATT's list of the 25 leading exporters in commercial services trade: Hong Kong, Mexico, the Republic of Korea, Singapore, Taiwan, and Thailand (GATT 1989, table 25). The services exports of these countries totaled 8.3 percent of the estimated world aggregate in 1987. However, for a number of developing countries services exports are an important share of total exports (merchandise and services). This is particularly true of the Arab Republic of Egypt (up from 13 percent in 1970 to 53 percent), Kenya (from 33 percent to 40 percent), Sudan (from 9 to 35 percent), Morocco (from 26 to 32 percent), and the Philippines (from 14 to 22 percent). These countries have experienced an increasing share of the services component. In the case of Israel and Mexico, the share has diminished, but still remains important (29 percent and 24 percent, respectively).

The developing countries accounted for 16.0 percent of world exports of commercial services in 1987, up from 11.5 percent in 1970, where "world" excludes Eastern Europe other than Poland, Hungary, and Romania. The total value of developing country exports of commercial services in 1987 was some US$81 billion, compared with merchandise exports of US$475 billion. No precise way to determine the extent to which the Community was an importer of the services exports of the developing countries is available. In 1987, the Community imported US$225 billion of commercial services or 44 percent of world imports. Applying that percentage to developing country exports would suggest that the Community bought some US$35 billion of developing country commercial services exports in 1987, which is equivalent to 27 percent of EC imports of goods and services from the developing countries. If the Community's income elasticity of demand for commercial services is taken as two—an arbitrary figure for want of appropriate econometric analysis—and 1992 is assumed eventually to boost EC incomes by 5 percent, a rough estimate of trade creation in developing country services would be US$4.2 billion or ECU 3.6 billion (at 1987 prices and exchange rates). This, however, is a gross figure. The export of services probably implies significant inputs of imported goods and other services, and often the repatriation of profits by multinationals.

To look at trade diversion and the effects of other aspects of the internal market—the effects of European standards, the harmonization of indirect taxes, and Community trade policy—we must consider the nature of the developing country services exports in more detail.

Apart from the Asian NICs, where transportation in the form of shipping is an important service export, travel dominates the service exports of the developing countries. For 31 developing countries the share of travel receipts in services exports exceeds 50 percent, and for 8 (Antigua, the Bahamas, Dominica, The Gambia, Grenada, the Grenadines, Haiti, St. Kitts, and St. Vincent) it exceeds 80 percent. Balance of payments
statistics do not separate the tourism component out of the travel account, but some indication of its relative importance can be judged on the basis of the "purpose of travel" question in the World Tourism Organization's regular survey. In almost all cases—the major exceptions being Bangladesh and Pakistan—tourism appears to be several times more important than other credits on the travel account. Nicolaides (1989) reports research showing that tourism is the single largest source of external revenue for the ACP countries. However, imports are probably a large input into the production of most tourist services, while foreign companies own much of the infrastructure. More research is needed to determine the extent to which the supply of tourist services is of net benefit to the exporting country.

Some reasons lead us to expect that the net price effects of 1992 on developing country tourism exports might be positive, that is, that trade diversion might be toward the developing countries and away from the Community (Langhammer 1989). Of these the most telling is the effect of rising unit labor costs in the Mediterranean countries on the ratio of internal to external prices for tourist services. However, the net result is uncertain, and assuming that the net trade diversion effect is zero may be best. Trade creation, however, could be significant.

The other services of most significance to the developing countries are maritime transport and aviation. Other things being equal, the demand for shipping and port services will rise roughly in line with trade. Since the primary product exports of the developing countries will be boosted by the rises in output and incomes consequent on the 1992 program, even if trade in manufactures remains broadly unchanged, some increase in demand for the shipping services of the developing countries is likely. In 1987, China, Hong Kong, Korea, and Taiwan supplied over 5 percent of world shipping services, and Singapore and Hong Kong supplied nearly 4 percent of port services. Since 1987, these economies' shares have probably increased substantially. They are likely to gain from the increased trade following 1992.

However, the Community has shown that it is prepared to take discriminatory action against shipping companies if they are alleged to practice "unfair" pricing (Davenport 1989). In 1989, the Commission imposed a countervailing duty on a Korean shipping company operating a liner service between Europe and Australia.

The developing countries are also significant exporters of transportation services in the form of air travel. Spokespersons and lobbyists for the Caribbean countries have expressed certain worries about the possible effects of greater competition and concentration among Community airlines, and the difficulties the developing country airlines might find in remaining competitive. It is also argued that relative bargaining power in the negotiation of landing rights and slots may change at the expense of the developing country lines (Langhammer 1989 citing Matthews 1989). These issues are still speculative. It is important to remember that any stimulus to greater efficiency would bring other benefits to the developing country lines.

That said, the effects of 1992 on the provision of air transport, through reducing the costs of supplies within the EC, are likely to favor Community airlines at the expense of third-country lines. The same is broadly true of most other services (insurance, financial services, telecommunications, marketing, and distribution). Indeed, one can argue that the costs of services supplied within the Community may fall relative to external suppliers by more than any changes in the relative prices of goods.

Some developing countries have begun to move into the area of financial services. The present proposals to grant more favorable treatment to established third-country institutions than to potential new entrants could have a disproportionately damaging effect on the developing countries. The insistence on national treatment of EC firms in the third country as a minimum requirement for entry into the Community market could create

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6. On the assumption that 1992 will boost EC GDP by 5 percent, Matthews and McAleese (1989) calculate that EC imports from the developing countries will rise by about 6 percent.
problems in particular cases. How, for example, could India give "national treatment" to Community insurance companies who wish to operate in India when, by law, the public sector must supply all insurance services in India? There will clearly be scope for using the argument that the third country is failing to provide reciprocity as an excuse to deny entry to the Community market to the country's enterprises.

The Maghreb and Sub-Saharan Africa

The Maghreb has traditionally had close links with the Community's southern countries. Over half the Maghreb countries' exports—worth US$13.5 billion in 1987—go to France, Italy, and Spain. In contrast, the Maghreb countries only absorb just over 1 percent of EC exports. EC banks hold between one-half and two-thirds of the debt of Algeria, Morocco, and Tunisia, which totals about US$47 billion. More than three million Maghreb nationals work in the Community, particularly in France, although many others work in Belgium, the Netherlands, and Spain.

Four Sub-Saharan states—Cameroon, Kenya, Mauritius, and Nigeria—have been associated with the Community through the 1963 Yaoundé Convention (Cameroon), through applying and receiving associate status in the late 1960s (Kenya and Nigeria), or subsequent to the United Kingdom's accession in 1973 (Mauritius). The Community market is critical for these countries. Table 5-4 gives the ratios of exports to the Community to total exports for these and the Maghreb states in 1981 and 1987. In almost all cases the dependency of these countries on the Community market increased during the period. The EC's importance as a market for the exports of these countries, with the exceptions of Kenya and Nigeria, is striking.

Table 5-4. Ratio of Exports to the EC to Total Exports for the Maghreb and Selected Sub-Saharan States, 1981 and 1987

<table>
<thead>
<tr>
<th>Country</th>
<th>1981</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>51.0</td>
<td>63.5</td>
</tr>
<tr>
<td>Morocco</td>
<td>57.9</td>
<td>59.9</td>
</tr>
<tr>
<td>Tunisia</td>
<td>61.4</td>
<td>78.8</td>
</tr>
<tr>
<td>Cameroon</td>
<td>48.2</td>
<td>63.4</td>
</tr>
<tr>
<td>Kenya</td>
<td>34.2</td>
<td>40.9</td>
</tr>
<tr>
<td>Mauritius</td>
<td>88.2</td>
<td>81.8</td>
</tr>
<tr>
<td>Nigeria</td>
<td>37.3</td>
<td>37.6</td>
</tr>
</tbody>
</table>


Table 5-5 provides a commodity breakdown of Maghreb exports to the EC for 1987. These are dominated by crude mineral oils, natural gas, and agricultural produce. Somewhat more than 25 percent of Algerian fuel exports to the EC and some 10 percent of Tunisian exports are in the form of refined products. Thus, in exports of manufactures to the EC, the most important components are refined oil products, fertilizers, and textiles and clothing.

The Sub-Saharan states are generally even more dependent on exports of unprocessed primary products than the Maghreb countries. In 1983 only 3.5 percent of their combined exports to the EC took the form of manufactures. In 1987, this share had risen to 8.4 percent. However, their experiences have been very different. In the case of Cameroon, semiprocessed woods account for a high and growing share of manufactured exports, while
in Kenya processed foods, including preserved vegetables and fruit and processed coffee, account for an 84 percent share of manufactured exports (see table 5-6).

Table 5-5. Commodity Distribution of Exports to EC, 1987
(percent)

<table>
<thead>
<tr>
<th>Exports</th>
<th>Algeria</th>
<th>Morocco</th>
<th>Tunisia</th>
<th>Maghreb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fish</td>
<td>6.0</td>
<td>4.6</td>
<td>4.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Fresh fruit/vegetables</td>
<td>0.3</td>
<td>7.1</td>
<td>3.5</td>
<td>3.7</td>
</tr>
<tr>
<td>Minerals</td>
<td>0.2</td>
<td>13.4</td>
<td>1.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Fuels</td>
<td>79.5</td>
<td>2.6</td>
<td>23.9</td>
<td>53.1</td>
</tr>
<tr>
<td>Chemicals/fertilizers</td>
<td>0.1</td>
<td>6.6</td>
<td>9.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Clothing</td>
<td>26.8</td>
<td>35.7</td>
<td>12.0</td>
<td></td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>2.4</td>
<td>4.5</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>19.9</td>
<td>35.1</td>
<td>16.6</td>
<td>21.3</td>
</tr>
</tbody>
</table>

Value of total exports
(ECU millions)
5,383 1,929 1,542 8,853


Table 5-6. Principle Manufactured Exports to the EC of Selected Sub-Saharan Countries, 1983 and 1987
(ECU$millions and percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total exports to EC</th>
<th>Manufacturing exports to EC</th>
<th>Principal manufacturing exports, 1987</th>
<th>4 as a percentage of 2</th>
<th>5 as a percentage of 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cameroon</td>
<td>1,299.7</td>
<td>112,25.2</td>
<td>131.6</td>
<td>72.6</td>
<td>50.9</td>
</tr>
<tr>
<td>Kenya</td>
<td>471.2</td>
<td>457.2</td>
<td>60.2</td>
<td>51.7</td>
<td>43.7</td>
</tr>
<tr>
<td>Mauritius</td>
<td>345.7</td>
<td>533.3</td>
<td>98.6</td>
<td>277.9</td>
<td>79.4</td>
</tr>
<tr>
<td>Nigeria</td>
<td>7,635.9</td>
<td>2,990.9</td>
<td>59.3</td>
<td>26.3</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Note: The principle manufacturing exports in 1987 (column 5) were as follows: Cameroon, semiprocessed woods; Kenya, processed foods; Mauritius, clothing; Nigeria, liquid ammonia.

Mauritius is noteworthy in that it doubled the share of manufactures in total exports to the EC between 1983 and 1987 through the impressive expansion of clothing exports, which now account for 94 percent of exports of manufactures. The share of manufactures in Nigerian exports to the EC is very small: under 1 percent. The most important export was refined petroleum products in 1983, but with the fall in the oil price, the single most important is now liquid ammonia.

Taking the Maghreb countries and the four Sub-Saharan countries together, exports of refined petroleum products, chemicals and fertilizers, manufactured foods, semiprocessed woods, and textiles and clothing stand out as being of particular importance. I will take each of these in turn in the context of 1992.

The 1992 program comes at a time when many within the Community are concerned about excess capacity in the oil refining sector. Between 1973 and 1985 the amount of oil refined in the EC dropped by 34 percent (EIU 1988). During the same period the EC shifted
from being a net exporter to being a net importer; 1992 itself will not change this picture. In the Community refined products are not subject to significant barriers between the member states. Nor are there large unexploited economies of scale or other opportunities for rationalization that 1992 will make available. The Community’s treatment of oil products is liberal (in contrast to the treatment of petrochemicals). The French and Italians have in the past come out in favor of imposing substantial tariff barriers on oil products, but imports from the Maghreb and ACP states would presumably continue to enjoy preferential treatment.

Proposals for the proposed harmonization of excise taxes, which will affect oil products, have been substantially watered down. The details remain to be worked out, but the plan is apparently for agreed minimum excise tax rates on fuel oil and petrols, together with nonobligatory target rates. Any substantial increase in average rates that could have a negative effect on overall demand on imports is unlikely.

Some trade displacement in favor of Community producers of chemicals and fertilizers could occur according to the commission’s studies for the Cecchini report (Cawley and Davenport 1988). Even before the dynamic effects—economies of scale and other efficiency gains from rationalizing production—are taken into consideration, the commission expects the cost savings from eliminating barriers with the EC to reduce EC imports from third countries by some 12 percent. The commission also expects that economies of scale effects will be substantial.

Morocco is the world’s biggest exporter of phosphate rock, with phosphates constituting its largest export earnings. The EC takes over half the volume of its overseas sales (EIU 1988). The government is keen to promote increased processing in Morocco, and is very competitive with European producers. These aims are unlikely to be jeopardized by 1992.

Manufactured foods, however, are less affected by efficiency gains from market integration than by the establishment of common EC standards. Imports of preserved vegetables and fruits will have to satisfy new Community standards in regard to labeling, use of additives, and hygiene. The hygiene directive has not yet been tabled, but is not expected to create major problems for vegetables and fruits.

As mentioned earlier, common rules on labeling will simplify the present situation and could benefit Maghreb and Sub-Saharan suppliers. Most of the rules on additives, including those on flavorings, extraction solvents, preservatives, infant formula, and starches, are already in place and have not caused major problems for third countries. Note that prior to the 1992 program, outside suppliers of manufactured foods had to contend with some 218 individual barriers in the Community. Of these, 64 were specific member-state import restrictions, 68 were controls on labeling or packaging, 33 were bans on specific ingredients, 39 were rules on product description, and 14 were instances of tax discrimination. By 1992, a single set of rules covering all member states should be in place.

Some trade diversion in wood processing cannot be excluded. The countries in question only export semiprocessed products, wooden panels, plywood, veneers, and similar products, but more acute competition in the EC market is likely, particularly from French firms. The commission foresees a reduction of wood product imports from third countries of 5.5 to 7.5 percent owing to direct cost savings from market integration. However, this is likely to be concentrated in finished wooden products such as furniture.

Estimates of the effects of eliminating member-state shares in Multi-Fibre Agreement quotas were discussed earlier. The Maghreb countries and Mauritius are not subject to the MFA, but the Community has forced them to accept VERs on their clothing exports. In general, they have been treated rather better than the MFA suppliers, with greater flexibility of carryover from one year to another (and carry forward into the next year) and generally higher annual growth rates.

The EC-wide VERs will not be affected directly by 1992, but in some cases VERs are limited to particular member states. “Thus Morocco’s trouser exports have been restricted throughout the EC, whereas those of shirts, blouse, dresses, and anoraks were restricted
only in France and the Benelux countries" (EIU 1988, pp. 73-74). After 1992, these member-state VERs will have to disappear as they are not compatible with free circulation in the Community. However, what will happen then is not clear. It is important for the exporting countries that they not be replaced by EC-wide restraints that would represent a considerable step upward in EC protection. Note also that if member state shares are eliminated on MFA supplies, competition to supply the currently quota-restricted member states will be tough. In some cases the Maghreb states will have to work hard to maintain their existing market shares.

Against these negative, trade diversion effects of 1992 must be set the trade creation that will come from increased incomes and output in the Community. Whether an individual country gains on balance will depend on how the EC demand for its exports responds to increases in EC GDP, that is, whether its exports enjoy high income elasticities. For most of Sub-Saharan Africa, the prospects of a favorable balance are enhanced, because to a large extent, their exports to the EC take the form of primary products that are not produced in the EC and for which trade diversion is not possible. There are limited opportunities for trade diversion for mineral oils, although oil-producing countries are likely to find more acute competition for refined products. For clothing, the outcome will be determined through negotiations over VERs and ultimately by whether textiles and clothing are brought back under GATT rules. For other manufactures, the balance between trade diversion and trade creation can only be determined by detailed sectoral analysis. However, the fact that 1992 will mean a less favorable outlook for the manufactured exports of the developing countries relative to exports of their primary product exports will be a source of concern to those countries who believe that diversification in manufactures is the way out of the problems of excessive dependency on a few primary products and secular weakness in primary product prices.

Conclusions

On balance, the identifiable effects of 1992 on the manufactured exports of the developing countries as a whole are probably small in value terms. This is partly because of the limited degree of import penetration by the developing countries, but the principal reason is that where the effects might have been substantial in either direction, a rough balance between trade diversion and trade creation seems probable. However, this will not necessarily happen for each developing country individually. It will depend on the particular mix of exports of each country to the EC. Clearly the Maghreb and Sub-Saharan countries are likely to face particular difficulties for some of their manufactures.

Cecchini's "shot in the arm" would be more substantial if the completion of the market were to lead not only to a once-and-for-all boost to Community GDP, but, through the intensified flow of innovations, new processes, and new products, to a higher long-term EC growth rate. If this were to happen, trade creation would dominate, and the developing countries could experience a long-term increase in the growth of their exports. However, all this remains very speculative.

Equally speculative are the effects of investment diversion. International competition to attract direct investment has yet to be subjected to international rules.

Unfortunately for the developing countries, their big advantage—low relative labor costs—is no longer as important as it once was. With the increased attractions of investing within the Community, it is difficult to see how the developing countries can but lose out in the scramble for direct foreign investment, and, in missing out on the new investment, their competitiveness and their ability to diversify their exports is bound to suffer.

There will be temptations to pass the burden of adjustment implied by 1992, in particular, the sectoral and regional dislocations and unemployment, on to third countries. Developing countries are least able to threaten retaliation against neoprotectionism, and are thus most vulnerable. The Community track record on VERs, antidumping, or other discriminatory protectionist devices is not good. The official
statements on reciprocity are disquieting. The proposals to the GATT negotiating group on textiles confirm these worries. The Community’s highly discriminatory structure of trade preferences creates further opportunities for a unilateral approach to trade relations.

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