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Review

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UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
SANTIAGO, CHILE, APRIL 1991

CEPAL
Review

Santiago, Chile | April 1991 | Number 43

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CEPAL REVIEW No. 43

Europe 92 and the Latin American economy

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This article analyzes the economic effects which the Europe of 1992 could have on the countries of Latin America. It examines the main factors which led to the signing of the Single European Act in 1985, such as the loss of competitiveness of the European economies, the slow recovery of the European Economic Community (EEC) after the two oil crises, and the rigid politico-institutional system of the Community.

It also examines the economic links between Latin America and the Community and concludes that over the long term these relations have weakened.

Finally, it sets forth the positive and negative economic effects which Europe 1992 could have on Latin America. Among the positive effects it highlights the boosting of trade flows and the reduction of international interest rates. Among the negative aspects, it emphasizes the possible formation of a kind of "fortress Europe" and the low level of priority given to Latin America in the Community's scheme of regional economic preferences.

It is concluded from the foregoing that Latin America could be more seriously affected than the rest of the world if the economic effects of Europe 1992 are unfavourable for the countries outside the Community, while if these effects are positive, Latin America will not benefit from them as much as the rest of the world. The article ends by indicating some possible lines of action for Latin America.

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Introduction

The European Economic Community (EEC) is considered to be the most advanced model of regional economic integration. Six States participated in its founding in 1957: France, Italy, Federal German Republic, Belgium, Holland and Luxembourg. A few years later, six other European nations entered the Community: Denmark, Great Britain, Ireland, Greece, Spain and Portugal.

The general objectives which the EEC has set itself are economic growth and higher living standards for its population, on the one hand, and peace and political union among the nations of Europe on the other. At a more instrumental level, the EEC has set as its objective since its beginnings the creation of a common market in which there is free circulation of people, goods, services and capital. This has not yet been fully achieved.

In the course of its history, the EEC has had to face not only problems originating within itself, but also other challenges deriving from the need to adapt to the demands of the moment and the rapid changes taking place in various spheres of the world environment. Without a doubt, however, it was in the mid-1980s that the EEC had to face the most serious challenge since its foundation. That crisis resulted from the conjunction of three phenomena:

i) The slow economic recovery of the EEC after the first and second oil shocks. On both occasions, the economic indicators of the Community's performance revealed that the inability of its economic system to respond to these challenges had structural causes. This situation was compounded by the obvious inability of the productive system to absorb the growing unemployment, whose features also suggested the existence of a structural problem;

ii) The loss of international competitiveness of the European economies, particularly with respect to the United States, Japan and the recently industrialized countries. To some extent this reflected a certain technological lag, which was manifested in low productivity, and the urgent need to restructure the Community's productive system and modify its weak form of insertion in the international economy;

iii) The extremely rigid politico-institutional system of the Community. It was imperative to make this system more flexible and reformulate it so that it could respond both to the new and dynamic international conditions and to the internal tensions which had long persisted within the Community and which threatened to affect its credibility both internally and externally.

The awareness of these elements led the EEC countries to sign the Single European Act in February 1986. This was the option which Giulio Andreotti called "choosing between something or nothing". Through the Single European Act the Community seeks to attain the following six objectives: the creation of a market without frontiers, greater economic and social cohesion, the emergence of a European social dimension, a common scientific and technological development policy, the strengthening of the European Monetary System, and co-ordinated action with regard to the environment.

The Single European Act has two key antecedents. The first of these is the determination of the cost of "non-Europe". To this end, in 1985 the Commission ordered an investigation to quantify the cost that the absence of a single market would involve for the Community because of the maintenance of restrictions on the free movement of all the factors of production among its member countries: a cost estimated at around US$ 224 billion.

The second antecedent goes back to June 1985, when the Heads of State and Government of the EEC undertook to create the Single European Market, the bases for which were set forth in a White Paper. This document sets out a timetable for the adoption of some 300 measures designed to establish the free and full circulation of citizens, goods, services and financial resources among the twelve member countries of the Community, in accordance with the spirit of the treaties setting up the European Communities, to which end it is aimed to gradually dismantle all physical, technical and fiscal frontiers before 31 December 1992.

The *physical frontiers* are the customs and immigration barriers and controls which persist under the principle of the division of the Community into national States. As the frontier checkpoints represent additional costs in terms of delays and administrative formalities and requirements, it is sought not just to simplify the existing procedures, but to do away completely with domestic frontier controls so as to expedite the movement of people and goods between countries.

The *technical frontiers or barriers* are the obstacles raised by the disparity of national legislation affecting the free circulation of goods and workers and the free provision of services, particularly financial services. In addition to dismantling such barriers, it is planned to establish a framework which favours collaboration between enterprises so that these can benefit from European-scale production.

The *fiscal barriers* are basically the problems deriving from the different rates of Value Added Tax applied by the various countries of the Community and their negative effects on competition and trade within the Community.

There can be no doubt that the implementation of the Single European Market will profoundly influence international economic relations. This article, however, limits itself to identifying and analyzing the probable economic effects that Europe 1992 will have on Latin America. As a first step, the following section examines the main elements which have characterized the economic links between that region and the EEC.

I

Economic relations between Latin America and the European Economic Community

1. *Trade relations between Latin America and the* EEC

The EEC is the world's biggest trading partner. Its share in world exports rose from 34.8% in 1963 to nearly 38% in 1988, when the Federal Republic of Germany became the biggest exporter of goods in the world, accounting for 11.2% of the total value of international exports.

At the same time, trade in goods within the Community has been growing steadily. In 1963 it represented 48% of the total trade of the EEC, while by the end of the 1980s it came to 60%. It is expected that the Single European Market of 1992 will further stimulate this trend (Commission of the European Communities, 1989a).

With regard to geographical destination (excluding intra-Community trade), around 60% of the Community's exports of goods goes to the industrialized countries, nearly 35% to the developing countries, and almost 6% to the Eastern European countries.[1] This structure, which has remained almost unaltered for the last two decades, will undoubtedly undergo substantial changes as a result of the processes of economic liberalization now underway in Eastern Europe.

If we look at the geographical origin of the imports of goods from outside the Community, we see that between 1965 and 1986 the share of the developed countries increased from 51% to 56%, whereas that of the developing countries went down from 43% to 37%. This is the opposite to what occurred in Japan, where the share of the developing countries in its imports increased from 40% to 51% over the same period, while in the United States this share remained at around 35%. The Eastern European countries, for their part, increased their share in the Community's imports from 6% to 8% between 1965 and 1986.

If we look at these figures in greater detail, we see that the main participants in the trade with nations outside the Community are the countries of the European Free Trade Association (EFTA), which accounted for 24% of the exports and 21% of the imports of goods of the Community in 1986. In second place came the United States, with 21% and 16%, respectively. In this respect, it may be noted that in 1975 the United States was three percentage points ahead of EFTA as a supplier of goods to the EEC, whereas in 1980 EFTA was five percentage points ahead of it.

The Community's trade in goods with the developing countries also shows some interesting features which are worth noting. Three regions (Latin America, the recently industrialized Asian countries, and Africa)[2] provide altogether 14% of the Community's non-EEC imports of goods: a share which did not vary at all between 1975 and 1986. Of these three regions, Latin America is the only one whose share as a supplier of the EEC has gone down: Africa maintained its share, while the recently industrialized Asian countries increased theirs.

With regard to EEC exports, in contrast, these three developing regions as a whole have actually lost importance as a market for the Community's sales outside the EEC, with their share going down from 16% to 12% over the same period. In this respect, the recently industrialized Asian countries maintained their share, whereas those of Africa and Latin America declined, especially in

[1] It is worth noting that the share of the Eastern European markets in the Community's exports of goods, at nearly 6%, is considerably greater than the 2% and the 1% that those markets account for in the exports of Japan and the United States, respectively.

[2] For the purposes of this part of the study, Latin America is taken to comprise the countries of South and Central America, together with the Caribbean islands; the recently industrialized Asian countries are Singapore, Taiwan, Philippines, South Korea, Hong Kong and Malaysia, while Africa includes all the countries of that region except South Africa, the North African Mediterranean countries and the members of the Organization of Petroleum Exporting Countries (OPEC).

the case of the latter region. Thus, Latin America was the only one of these developing regions which lost importance for the EEC with regard to both imports and exports of goods outside the Community.

This happened in spite of the significant increase in the value of trade in goods between Latin America and the EEC in the 1970s and 1980s, for this increase was less than that of the total imports and exports of goods of the two regions, which explains why each of them has lost relative importance for the other as supplier and purchaser. Consequently, over the long term the trade relations between the two groups of countries have weakened.

Thus, in 1970 the EEC was the main purchaser of the exports of the Latin American Integration Association (ALADI),[3] accounting for nearly 33% of them. In second place came the United States, which absorbed 28.4% of those exports. In 1987, however, exports to the latter country represented 33.4% of the total exports of goods of ALADI, whereas those to the EEC were no more than 20%. Similarly, in 1970 over a quarter of ALADI's external purchases came from the Community, while in 1987 only a little over 20% did so.

The loss of relative importance of ALADI in overall trade with the EEC is also noteworthy. In 1965, ALADI absorbed 8.2% of the EEC's exports outside the Community and provided 10.5% of its imports. By 1988, however, these shares had fallen to 3.7% and 5.9% respectively, thus showing that this developing region was virtually marginated from the European visible trade circuit.

Another two elements which help to sum up the nature of the trade in goods between Latin America and the EEC are the maintenance of an increasingly favourable trade balance for Latin America and the persistence of "uneven trade" between the two areas. Thus, whereas manufactures make up 85% of the Community's exports of goods to Latin America, they still do not exceed 20% of that region's sales of goods to the Common Market.

The low share of manufactures in Latin America's exports to the EEC contrasts with the growing proportion of such products in the Community's total imports of goods (almost 60%). This indicates that Latin America's export effort should concentrate on manufactures.

2. *The Latin American external debt and the EEC*

Nearly 60% of Latin America's external debt, which amounted at the end of the 1980s to US$ 416 billion, is with the international banking system. The region has 11 main creditors: eight European countries (United Kingdom, France, Federal Republic of Germany, Switzerland (which is not a member of the EEC), Spain, Italy, Netherlands and Belgium), plus the United States, Canada and Japan.

Latin America's joint credit balance with the banks of those eight European countries was close to US$ 99 billion at 1987 prices. It was slightly higher than the balance with the United States banks,[4] and was a little over three times that of the Japanese banks.

The European banks have been seeking to reduce their credit exposure in Latin America, and after the Mexican crisis of 1982 they gradually began to build up contingency funds to guard against sovereign risk situations. This move was subsequently followed by many United States banks. Unlike the latter, the European banks can take advantage of favourable banking and fiscal regulations which even provide for substantial tax deductions. Thus, in 1989 the European banks had reserves covering between 50% and 80% of their commitments with developing countries, whereas the reserves of the United States banks were only between 30% and 70% of their commitments.

Partly because of their bigger reserves, the European banks have given only lukewarm support to the Brady Plan and are showing greater reluctance to make fresh loans at a time when they are seeking to reorient their credits towards the developed countries. At the end of 1986,

[3] For statistical reasons, the figures for ALADI are used as though they were representative of Latin America as a whole in most of this section, but this does not affect the conclusions of the analysis.

[4] This contradicts the generally accepted assertion to the contrary, which was lent credence by the fact that the European banks showed less interest than the United States ones in seeking solutions to the debt problem.

nearly 60% of European international loans had been granted to industrialized countries, compared with less than 35% in the case of the United States banks (SELA, 1988). As a result, the European banking system's credits to Latin America have gone down to less than 8% of its total loans, although Spain and the United Kingdom still have relatively high commitments with that region.

The European governments maintain that direct responsibility with regard to the debt lies with the commercial banks, the debtor countries and the multilateral agencies. They also consider that their contribution to relieving the problem should be an indirect one, preferably through the reactivation of their economies and imports. Some European countries (especially France, the United Kingdom and Belgium), however, have played a leading role in the initiatives at the Venice (1987) and Toronto (1988) summits aimed at seeking to relieve somewhat the external debt burden of the less advanced countries.

The Commission of the European Communities, for its part, has taken a more flexible attitude to the external debt problem. It has accepted that the problem is of a political nature, and in 1985 and 1986 it acted as interlocutor with the Cartagena Agreement (which groups together 11 Latin American countries) in a dialogue aimed at reaching a global approximation that could serve as a basis for recommending initiatives in specialized forums. Despite the support of the European Parliament, however, the Commission's efforts to forge a common European position and keep up a political dialogue with the debtor countries of Latin America were frustrated by lack of support from its member countries and the fact that the Commission did not have direct competence in this area.

The Commission's competence on this matter is only indirect, being limited to the repercussions caused by the debt problem on its level of trade. In this respect, it has been estimated that over a million jobs have been lost in the EEC because of the drop in European exports to the heavily indebted developing countries and that half of this loss may be attributed to the decline in Latin America's imports because of the application of adjustment policies in the countries of the region (IRELA, 1987, p. 21).

All in all, Europe's participation in the search for ways to relieve the Latin American external debt problem has not been very significant, and it seems unlikely that there will be a substantial flow of voluntary loans from Europe 1992 to Latin America. At the same time, the opening up of Eastern Europe and the political and economic interests of the EEC in that area give grounds for expecting that it will be competing with Latin America as a recipient of financial resources.

3. *The EEC and its direct foreign investment in Latin America*

In recent years, world flows of direct foreign investment have increased substantially, due basically to the improvement which has taken place in the world economy. However, they have continued to go primarily to the developed countries.

If we look at the countries which have received flows of direct foreign investment, we see that there has been a notable increase in the share of the developed countries and a sharp reduction in that corresponding to the developing countries (CTC, 1989). Between 1981 and 1983, the first-named countries received an average of 72.5% of the total amounts, while in the period 1984-1987 this figure went up to 78.8%, the increase being basically absorbed by the United States, which has come to receive nearly 45% of the total world value of these flows. The relative importance of the developing countries as recipients of direct foreign investment, however, has gone down from an annual average of 27% in 1981-1983 to 21% in 1984-1987, due *inter alia* to the fact that many of these economies have faced extremely serious constraints.[5]

An analysis by regions indicates that Africa and West Asia maintained their share of direct foreign investment flows in general terms in the 1980s, with levels of 3% and 1%, respectively. Southeast Asia's relative share went down from 11% in 1981-1983 to 9% in 1984-1987, and the same thing occurred in Latin America and the Caribbean, whose share fell from 13% to 8% be-

[5] It should be noted that only in 1987 did the absolute value of the flows of direct foreign investment to the developing countries recover and exceed the level achieved in 1981.

tween the two periods in question. This latter region suffered the biggest decline in its share as a recipient of direct foreign investment, with the average annual value of these investment flows going down in absolute terms from US$ 6.1 billion in 1981-1983 to US$ 5.8 billion in 1984-1987.

Between 1967 and 1988, the share of direct foreign investment from the Community in the total flow to Latin America grew from 23% to 28%.[6] This increase is not very significant if it is compared with the growth in the Community's share of the total world value of direct foreign investment (which went up from 40.2% in 1967 to 51.2% in 1987). This lag in Latin America's share raises the question of the need to analyse what relative importance Latin America will have for the EEC in the light of the Single European Market of 1992 and the opening up of Eastern Europe.

4. *The EEC and its official development aid to Latin America*

In the sphere of financial co-operation, the Community as a whole is the main world source of official development aid, with the United States and Japan occupying second and third place, respectively. The Community's share in the world total of this aid rose from 32.7% in 1970-1971 to 35.3% in 1986-1987.

Leaving aside the bilateral contributions which member countries make of their own accord, the Community's development co-operation (the origin of which goes back to the Treaty setting up the Community) has basically been oriented towards the developing countries or regions which are associated with it and with which it has maintained a specially privileged relationship: that is to say, the signatory countries of the Lomé Agreement, and some other nations located in the southern and eastern Mediterranean.

In fact, it was only 30 years after its establishment that the Community decided to extend its official aid to developing countries which were not formally associated with it. Only in 1976 did it begin to channel this aid, on an experimental basis, to the developing countries of Asia and Latin America, which do not receive a very significant proportion of the total Community contribution. Thus, the Community's contribution to Asia and Latin America in 1976-1988 came to nearly US$ 4.5 billion, of which Latin America only received 25%. Africa, for its part, received over 50% of the Community's official development aid, whereas South America only received 4.8% of it.

Thus, Latin America only gained access to these benefits at a late stage, and the amounts it has managed to obtain are not very significant, not only compared with the developing regions that have preferential relations with the EEC, but also compared with other areas which are not formally associated with the Community. The reasons behind this attitude of the Community are, on the one hand, the fact that the EEC sees Latin America as a region at an intermediate level of development, while on the other the Latin American countries are felt to be in an area that is clearly linked with the United States.

5. *Bilateral and subregional agreements between the EEC and Latin America*

There are two types of co-operation agreements between the EEC and Latin America. On the one hand, there are those which the Community has signed with various subregions of Latin America because of the Community's interest in establishing agreements with groups of countries considered to be relatively similar. Two such agreements are currently in effect: one with the Andean Pact and the other with the Central American countries. In addition, the EEC has signed individual co-operation agreements with three Latin American countries: Brazil, Mexico and Uruguay. All the above agreements are more along the lines of framework agreements, since they do not contain specific commitments, even with regard to technological collaboration, but serve rather as basis for dialogue to stimulate economic co-operation.

These agreements have not fully satisfied Latin American expectations, since their effects have been restricted by the limited instruments and resources available to the Community with respect to countries which are not associated with it. In particular, the agreements signed with the

[6] Data obtained directly from the Joint ECLAC/CTC Transnational Corporations Unit.

Latin American countries do not contain financial protocols, in contrast with the agreements in effect between the EEC and the Mediterranean countries, for example.

II

The economic effects of Europe 1992 on Latin America

1. *Potential benefits of the Single European Market for the* EEC

In order to obtain quantitative appraisals of the economic benefits that the Single European Market could bring, the Commission of the European Communities requested, *inter alia*, a study under the general direction of Paolo Cecchini, a former official of the Commission, which was published in summary form in 1988 in a volume known as the Cecchini Report.

It is concluded from the analysis that the elimination of physical, technical and fiscal frontiers referred to earlier will lead businessmen to reduce both their prices and their production costs, as they will be facing the pressure of much wider competition. This drop in prices, in turn, will stimulate demand, so that there will be an increase in production, which will lead to further cost reductions thanks to economies of scale. Benefits are also expected through the use of new trade strategies and the improvement of the efficiency of enterprises through the introduction of technological innovations and new production processes, all stimulated by the dynamics inherent in the internal market.

In particular, the Cecchini Report quantified the effects of the reduction of obstacles with respect to customs procedures, government purchases and financial services. It considered that the biggest benefits would come from the liberalization of the latter market, which it is hoped will lead to the transfer of the lower costs of financial services to the economy as a whole, thus reducing prices and increasing demand and production, while at the same time the favourable effects would lead to increased investment in response to the lower cost of credit.

According to the report, the above factors would generate a 4.5% increase in the gross domestic product, the creation of 1.8 million new jobs, and a reduction of 6.1% in consumer prices. The public sector balance would improve by the equivalent of 2.2% of the gross domestic product, since tax revenue would rise because of the increase in the product, while expenditure would go down because the keener competition on the market would bring down the prices of the goods purchased by the public sector. The greater competitiveness of exports would raise the Community's current account balance with the rest of the world (which at present is more or less balanced in global terms) by the equivalent of 1% of the gross domestic product. These benefits would take place on a one-time basis and would be obtained in the medium term, four or five years after the integration programme was completed, that is to say, around 1997.

According to the Cecchini Report, if the governments of the EEC countries adopt more expansionary fiscal policies and spend the whole of the increase registered in the public sector balance, then the medium-term increase in the gross domestic product would rise from 4.5% to around 7%, the number of new jobs would be close to five million, the public sector budget would remain in its present state, prices would fall by nearly 4.5%, and the current account of the Community would register a deficit equivalent to 0.5% of the gross domestic product.

Arguments have also been put forward pointing to the positive effects which Europe 1992 could have on the economy of the rest of the world. These arguments are considered below, more in terms of hypotheses than concrete analyses, since this is a topic which has not yet been fully dealt with and does not permit categorical conclusions.

2. *The possible favourable economic impact of Europe 1992 on the rest of the world*

The Community has declared that the Single European Market will represent an important step forward in the search for greater deregulation and liberalization of international trade. In its view, Europe 1992 will not be an economic fortress but a trading venture. This optimistic outlook assumes that a regional free trade agreement can be a key element in the construction of a broader and more multilateral international trade system.

One of the main arguments put forward is that if the integration of the European market produces the expected high growth rates in the economies of the Community, then the corresponding increase in income could be reflected in a higher level of imports, which would boost international trade flows and raise economic activity in the rest of the world, since the Community is the developed region which is most open to international trade.

This same line of analysis maintains that protectionist pressures in the Community will be reduced, both because of the expected increase in the economic growth rate (close to 7% in the most favourable option) and through the generation of five million new jobs that such growth would bring about. Such pressures would also tend to go down because European firms would improve their efficiency as they were able to take advantage of economies of scale.

Latin America could benefit from the higher level of imports of the EEC only if its export structure is in line with the real needs of the European market and if its export products are able to compete in terms of price and quality both with the rest of the world and with the more efficient European production.

One element which strengthens the argument for the reduction of protectionism by the Community against imports from the rest of the world is of an institutional nature. It is expected that the qualified vote introduced by the Single European Act will eliminate an important factor favouring protectionism, which is often demanded by the weaker nations, regions or sectors in order to cope with external competition.

Another favourable aspect would be the lower rate of inflation brought about by integration of the Community's market. It may be recalled that the Cecchini Report foresees a reduction in consumer prices, which could lead to lower interest rates if the inflationary expectations of the economic agents go down too. The possible reduction of international interest rates would particularly benefit the countries of Latin America, because of their high level of external indebtedness.

Moreover, if the EEC lowers the prices of its exports, the rest of the world would benefit both through more favourable conditions in their trade with the Community and through the benefits obtained from a more competitive international environment in which the United States and Japan would have to respond by reducing the prices of their exports in order to face up to possible improvements in production efficiency in the EEC.

Another effect of the restructuring of the Community scheme would derive from the possibility that in an as yet undetermined length of time the Community will have a single currency in which it will carry out all its transactions. This would be positive for two reasons: firstly, because it would reduce the number of international currencies, since in practice 11 of them would disappear, and secondly, because the European Currency Unit would become a third reserve currency (together with the US dollar and the Yen), thus facilitating the co-ordination of macroeconomic policies among the main industrialized countries.

Furthermore, it may be assumed that the Single European Market will involve the reassignment of the EEC's budget, diverting financial resources from the biggest item of expenditure —the Common Agricultural Policy (CAP)— to research and development and to support for the regions of Europe most seriously affected by the need to adjust their economies to meet the new requirements for higher competitiveness.

The foregoing, together with the pressures exerted by many countries in GATT to try to get the EEC to agree to liberalize trade in agricultural products, and the voices in Europe which point out the inefficiency of maintaining a Common Agricultural Policy like the present one, make the modification of the latter seem inevitable. Indeed, the EEC understands that further progress in the reform of this policy which was begun in 1984 is an element that must be taken into account for the consolidation of the Single European Market.

This matter has significant international projections. The liberalization of world markets for agricultural products and the elimination of all types of support for their production, which is expected to take place gradually, will be an important stimulus for those countries (particularly developing nations) which have certain comparative advantages in the production of such goods.

3. *Critical appraisal of the Cecchini Report*

Probably the most important criticism levelled at the Cecchini Report is that its projections of the economic benefits which the Community would obtain by integrating its markets are based only on the most favourable scenarios. It may be noted by way of illustration that according to one estimate (Peck, 1989, p. 21) the benefits could possibly amount to an increase of only 2% of the gross domestic product, instead of the rise of between 4.3% and 6.4% projected in the report.

Moreover, the Cecchini Report does not deal in depth with the economic adjustment that must necessarily take place in the nations of the Community, its intensity and duration, or the adverse effects it could have with regard to unemployment. In principle, certain enterprises in some countries of the EEC could suffer losses by being exposed to more intensive competition. Indeed, most of the benefits to be obtained by taking advantage of economies of scale would come from a restructuring process which would cause a by no means insignificant proportion of the enterprises of the Community to disappear.

According to a study by Smith and Venables (1988), the number of enterprises would go down in all branches of industry except cement and office machines. The most extreme case would be that of the footwear industry, where 207 of the 739 firms existing in the Community would disappear. Some countries would bear a particularly large proportion of these costs: for example, the United Kingdom would lose 46 of its 65 footwear companies, 31 of its 52 carpet companies, and one of its three motor vehicle firms.

Moreover, the problem of unemployment will probably become more critical in the short term, possibly causing serious social and political pressures for the restoration of the previous levels of protection or demands that governments should bear the costs of the liberalization process. This would be reflected in higher expenditure on unemployment benefit or in the application of an expansionary fiscal policy which the public sector would have to finance through indebtedness with the private sector, thus possibly generating upward pressures on interest rates.

Finally, the success of the Community project will depend on the political will of the governments to accept a position which goes beyond national interests in certain matters: something that will not be easy to manage, since the benefits of the unification process will not be equitably distributed.

4. *A different view of Europe 1992*

Although from the European point of view the Single European Market is seen as a great movement towards deregulation and economic liberalization, some sectors in the rest of the world see it rather as an attempt to erect a fortress which will prevent the improvement and further development of economic relations with the EEC.

Thus, various economic interest groups, especially in the United States and Japan, fear that the intra-Community restrictions adopted will later be transferred to the exterior. In their view, the Single European Market will defend the Common Market from external competition: the process of deregulation will cause internal imbalances which will increase unemployment and produce still wider gaps between the different regions of the EEC, leading to social problems and the resurgence of national or local feelings which will finally be reflected in an increase in protectionism by the Community.

The question, then, is what will happen as from 1992 with regard to the protection which the EEC applies against imports from the rest of the world. In answering this question, it is necessary to single out at least two of the elements which make up the concept of protectionism. The first of these is the common tariff rate, regarding which it is necessary to see if the new levels correspond or not to the weighted average of the levels currently prevailing in each of the countries. The second point is that of non-tariff barriers, regarding which it is important to know the rules and requirements which the EEC is likely to impose on imports.

With regard to tariffs, there are some points of concern, since when the EEC was set up, the industrial tariffs were averaged on an arithmetical basis, whereas those applied to the agricultural sector were raised in line with the Common Agricultural Policy. When Spain entered the EEC, its industrial tariffs were reduced, but its agricultural protection went up. These two situations gave rise to intensive negotiations both inside and outside GATT. The final decision was not very clear, even though this body lays down that in both customs unions and free trade areas, the level of protection against non-member countries should not be higher than that existing when these unions were set up (GATT, 1948, article XXIV).

Another element which might tend to back up the theory of "fortress Europe" is the extraordinary growth registered in intra-Community trade. This grew from 48% in 1963 to nearly 60% of total Community trade today. Even so, however, it would appear that this increase — achieved to some extent at the expense of extra-Community trade — is not yet considered sufficient. Various European studies maintain that the current imports from outside the Community should be at least partially replaced by products of the EEC itself.

With regard to non-tariff protection, it may be noted that the harmonization of the trade regulations of the EEC does contain a positive element for the rest of the world. Thus, it will be easier and less costly and risky to deal with the countries of the Community on the basis of a single system of trade and economic rules and requirements, instead of negotiating individually with each of the 12 nations which now make up this integration scheme.

However, this harmonization will also have some negative effects for certain developing countries, since the trade preferences which some member countries of the Community have granted to certain developing nations will gradually be eliminated. As from 1993, these preferences will come under a common scheme to be decided by the EEC itself.

With regard to this point, it may be noted that the Community will have still more power to perfect its arsenal of import restriction measures, such as reciprocity agreements, anti-dumping mechanisms, and the new trade policy instrument[7]; these measures have been severely criticized by the rest of the world and have been accused of lacking transparency. Moreover, the preferences of European consumers are increasingly inclined towards high quality products whose technical specifications safeguard health and the environment. This attitude could serve to legitimize the application of more sophisticated trade regulations by the Commission, which would thus try to satisfy the new demands of consumers, who represent the ultimate political support for the integration scheme.

At the same time, European producers are deploying all their influence in order to make the Commission adopt greater protectionist measures. A substantial proportion of businessmen in the Community are already producing goods which are in line with the new quality standards demanded by European consumers, so that they are in a position of relative advantage *vis-à-vis* foreign competition.

In view of the foregoing, it is reasonable to expect an increase in the number and a certain hardening in the nature of non-tariff measures, rather than a general rise in tariff rates, in order to provide temporary and selective protection for certain industries which have to adapt themselves to greater external competition within the Community, at least in such key sectors as electronics and informatics.

At all events, United States and Japanese firms plan to get inside the Community's space as soon as possible, as a strategic way of avoiding conflicts which could arise with the possible increase in trade protectionism. Thus, the EEC is receiving a growing proportion of world direct foreign investment (CTC, 1989). Between 1981 and 1983, 15% of United States direct foreign investment went to the EEC, while between 1984 and 1987, the figure rose to 55%. Between the same years, the figures for Japan rose from 10% to 17%.

[7] This instrument enables private businessmen of the Community to approach the Commission directly in order to request protective measures against imports that they claim are using "unfair trade practices".

5. *The relative importance of Latin America for the European Economic Community*

a) *The EEC and the industrialized countries*

Two recent phenomena have once again placed the European Continent at the centre of world attention. The first of these is the further development of the Community's integration scheme, with the probable incorporation into it of the countries which currently make up EFTA. The second phenomenon is related to the processes of political and economic reform which are underway in almost all the Eastern European countries and the redefinition of the political and economic links between those countries and the EEC.

This indicates that Europe is moving towards substantial changes in its political and economic relations, and the EEC is undoubtedly a leading actor in this process. The Community plays the role of the binding factor between the various countries of the Continent, in order to bring into effect the old idea of a unified Europe. For this reason, the EEC attaches high priority to its economic and political relations both with the six countries which currently make up EFTA (Switzerland, Austria, Sweden, Norway, Finland and Iceland) and with the Eastern European nations.

As already noted, the EFTA countries are not only the main trading partners of the EEC but have also been steadily increasing their economic links since the creation of a free trade area between the two groups in 1973. More recently, in June 1990, formal negotiations were begun between these two blocs of countries with a view to establishing a common economic space with free circulation of goods, services, labour and capital. This gives grounds for thinking that further EFTA countries could also request their formal incorporation into the EEC, following the example of Austria, which formally applied to do this in 1989. Such an expansion would not raise serious economic difficulties, since the levels of development of the EFTA countries are equal or superior to the Community average.

The EEC's current position in this respect is clear. In June 1990, a high official of the Commission said that the Community had chosen to deepen its activities rather than expand them: only after 1992, once it had achieved a better definition of itself, would it begin negotiations with the European countries which had applied to join it. Meanwhile, the EEC was negotiating with the EFTA countries to create a common economic space with them.[8]

With regard to the Eastern European countries, the momentous political changes which have been observed in them recently have also been reflected in the economic sphere, where the reforms are oriented basically towards the establishment of private ownership of the means of production and the fixing of prices through the market mechanisms.

Although the Western countries view the reforms applied in Eastern Europe with a certain amount of caution, it may be asserted that generally speaking they have shown great interest in these processes. Both the Group of Seven and the Organization for Economic Co-operation and Development (OECD) have referred on various occasions to the need to encourage the economic reform processes taking place in Eastern Europe, in order that these countries may be fully integrated into the world economy. Notwithstanding the great interest displayed by these two bodies and their possibility of establishing direct agreements in order to tighten their economic links with the Eastern European countries, both of them recognize that in this respect the EEC has a particularly privileged status because of the specific nature of its relations with these countries. It may be noted, for example, that at the Summit Meeting of the Seven, held in July 1989 in Paris, the EEC was given responsibility for co-ordinating the aid to be provided by the 24 OECD countries to Hungary and Poland in order to support the efforts of the latter countries to transform their economies.

In addition to the financial aid which the most highly developed Western countries plan to give to Eastern Europe, the Community's budget also provides for credits totalling nearly US$ 3 billion to assist in the economic reconstruction of this area between 1990 and 1992. The Community has also granted a structural adjustment

[8] From the statement delivered by Mr. Vittorino Allocco, Head of the Commission's Office in Chile, on 5 June 1990 in the Catholic University of Chile.

loan to Hungary in the amount of US$ 1 billion and food aid to Poland in the amount of US$ 256 million.

Furthermore, all the Eastern European countries which adopt economic reforms designed to promote the functioning of the market forces can take advantage of credits from the European Bank for the Reconstruction and Development of Eastern Europe, which the EEC proposes to set up with capital of nearly US$ 13 billion.

This financial assistance has been complemented with a set of trade liberalization measures designed to reduce tariffs and eliminate non-tariff barriers affecting the EEC's imports from the Eastern European countries. In addition, certain exports from some countries of the area, such as Hungary and Poland, can take advantage of the EEC's Generalized System of Preferences: a benefit which was subsequently also made available by other OECD countries. Likewise, after Czechoslovakia had already done so, Bulgaria and Romania were able to take advantage of the EEC's most-favoured- nation clause and they were also able to do so in some other OECD countries.

The foregoing undoubtedly points to still closer trade relations between Western and Eastern Europe, which are already closer than the links between the latter area and the rest of the western world. Nearly 8% of the EEC's imports from outside the Community come from Eastern Europe: a percentage which is notably higher than the latter area's share in the imports of the United States (around 1%) and Japan (nearly 2%). Likewise, nearly 70% of Eastern Europe's exports of goods to OECD countries go to the EEC.

The reunification of Germany will undoubtedly lead to closer and deeper economic and political links between Eastern and Western Europe. Within this same context is the fact that Hungary wishes to enter the EEC as a full or associate member. Likewise, the President of Czechoslovakia has spoken of a "Central European" unit, with historical, cultural, political and economic links.

In this connection, a high official of the Commission said that the EEC was studying the possibility of transforming the co-operation agreements linking the Community with the Eastern European countries into true agreements of association, with institutional organs to ensure political and economic co-ordination with them: a challenge which amounted ultimately to uniting the whole of the Old World around the same ideals in order to convert it into a vast area devoted to the pursuit of peace and freedom.[9]

The foregoing shows that the Eastern European countries are of enormous interest to the EEC and will be competing with Latin America for loans, development aid, trade facilities, and direct foreign investment.

Within the industrialized world that lies outside the limits of Europe, the Community has shown special interest in economic relations with the non-European member countries of OECD. It maintains close links with them in the areas of trade and finance as well as direct foreign investment, and in fact the United States is the Community's main trading partner within an overall scheme in which Japan is also a key element.

b) *The EEC and the developing countries*

Within the developing world, the EEC has great interest in its links with the Mediterranean countries: it has signed association or co-operation agreements with 12 of them as part of a global policy aimed at furthering the economic development of these countries and promoting mutual trade.

With regard to the Northern Mediterranean countries, the EEC grants customs concessions in respect of most of the industrial products sold by Yugoslavia, which has also obtained loans from the European Investment Bank in an amount of over US$ 700 million over the last five years. The EEC has also established special agreements with Turkey, Cyprus and Malta, whereby the industrial exports of those countries can enter the EEC without paying customs duties and without any limitation on volume, while concessions have also been made in respect of various agricultural products. Turkey, Cyprus and Malta have all officially applied to join the EEC.

In the case of the eight Southern Mediterranean countries, the EEC has signed agreements

[9] Address delivered by Mr. Vittorino Allocco, Head of the Commission's Office in Chile, on 5 June 1990 in the Catholic University of Chile.

on trade, industrial, technical and financial co-operation with all of them, whereby the industrial products of these countries have free access to the Community market, while specific concessions have also been granted for some agricultural products and financial assistance in the amount of US$ 2 billion has been provided over the period 1986-1991. Special mention may be made of the close economic links which the EEC has with Morocco, which has also applied to join the Community.

The EEC also shows keen political and economic interest in the Arab nations of the Persian Gulf, due especially to its dependence on that region of the world for energy resources. Specifically, it is seeking to expand the existing trade agreements to cover trade collaboration, transfer of technology, investment incentives, agricultural development, and other matters connected with development co-operation.

There are also the 66 African, Caribbean and Pacific (ACP) countries which are signatories of the Lomé Agreement. These are mostly ex-colonies of European countries, with which the EEC maintains especially privileged relations. Thus, with regard to trade, almost all the ACP countries' exports to the EEC can enter the Community free of all customs duties, and the Community has even granted preferences in respect of products which compete with its own agricultural sector (for example, sugar).

An integral part of this Agreement is the "Stabex" fund, which is designed to guarantee the income from exports of basic commodities by the ACP countries to the Community. Another similar system called "Sysmin" finances the maintenance and repair of mining installations, as well as economic reconversion when the mining potential of the ACP countries is seriously affected by unforeseeable circumstances.

In addition to these support elements, the range of co-operation instruments used by the Community in its relations with the ACP countries includes many other facilities. Financial and technical co-operation to those countries amounted to US$ 10 billion between 1985 and 1990 and was directed, *inter alia*, to rural and agricultural development, industrialization, economic infrastructure, social development, small and medium-sized enterprises, telecommunications, ports and water supplies.

These agreements are renewed every five years: the latest of them, known as Lomé IV, was signed in February 1990 and will run until 1995. The negotiation process which culminated in that agreement was different from the three preceding ones, since the original financial demands of the ACP countries were almost 53% higher than the amount offered by the Community. These countries considered that the effects of the structural adjustment processes on unemployment and public expenditure, plus the drop in the prices of some of their most important export commodities and their external debt burden, meant that the Community should reappraise its relationship and co-operation with them, particularly in financial matters but also in the area of trade.

Finally, reference should be made to the Asian developing countries which are not members of the Lomé Agreement and the Latin American countries. From the Community's viewpoint —because of their low level of per capita income— the EEC gives the former priority over the latter, especially with regard to development assistance and co-operation.

c) *The EEC and Latin America*

It may thus be seen that Latin America has not only lagged behind in its economic relations with the EEC, but has also not received priority in the Community's scheme of regional or geographical economic preferences. This situation contrasts sharply with the much closer political relations established between the two regions and the hope of even closer contacts when Spain and Portugal join the Community.

Since the EEC does not assign great economic importance to Latin America, the latter region may be more seriously affected than the rest of the world if the economic effects of Europe 1992 turn out to be negative for the countries outside the Community. On the other hand, if those effects are positive, Latin America will still not benefit from them as much as the rest of the world, be it developed or developing, western or eastern.

Consequently, in order to cope with the situation raised by the Single European Market, Latin America must understand that it forms part of a broader context of profound changes in the international economic system and that the great challenge this raises must be faced through regional as well as national efforts.

6. *Some action guidelines*

Everything indicates that in the medium term the process being carried out by the Community will lead to the improvement of its levels of production efficiency, with similar responses from the traditional industrialized countries and the countries of recent industrialization. It may therefore be expected that in the future international economic relations will be increasingly competitive. This future situation raises important challenges, but also offers opportunities which must be exploited. Some general guidelines for Latin America's action in this respect are outlined below:

i) It is essential to ensure that Latin America's new insertion in the international economy is in keeping with the new and dynamic changes in the structure of world demand. It is vital to make profound changes in the production of both goods and services in order to be able to respond in a competitive manner to the current international demands. This will only be possible through a process of changing production patterns with social equity[10] which seeks to raise productivity, improve the efficiency of all factors of production, and increase the added value of exports.

ii) It is necessary to resume the path towards regional economic integration with renewed approaches having real, solid bases: a task which must be tackled in a manner that goes beyond the mere search for a geographical space which facilitates exports to third markets. Latin American integration must also be directed towards the configuration of a scheme which makes possible regional co-ordination and consensus-building in order to improve Latin America's bargaining position both with the international finance agencies and *vis-a-vis* the great blocs of countries which are now acting jointly.

iii) With regard to the EEC, Latin America must seek, through its negotiating position, to raise its economic relations with the Community to a level similar to that existing in the political sphere. It should be noted in this respect that the argument put forward for decades by the EEC in justification of the low profile of the economic relations between the two regions has been "the absence of a valid interlocutor representing Latin America's point of view". Clearly, it is the responsibility of the region to demolish that argument, and the only way to do so is by speaking with a single voice.

iv) With regard to the bilateral economic co-operation agreements between the Community and Latin American countries, the existing agreements with Brazil, Mexico and Uruguay must be further developed and it is essential to create suitable conditions for the establishment of similar agreements with as many Latin American nations as possible, in order to develop and improve the economic links between the two regions in all possible fields.

v) Efforts must be made to establish Latin American enterprises within the Community, as a means of ensuring the marketing of the region's goods or services in that area. Consideration could also be given to the possibility of arriving at joint production agreements with EEC enterprises within the territory of the Community, which would enable Latin American enterprises to take part in European public sector tenders, where a certain minimum local content of products is required.

vi) In the financial field, Latin America should seek forms of finance different from those already existing in the Community, by offering realistic and stable incentives for foreign investment from the various member countries of the EEC. The investment projects thus agreed upon could well be accompanied by additional "voluntary" loans.

[10] ECLAC has dealt at length with the issue of changing production patterns with social equity, which is one of its main concerns (see ECLAC, 1990a).

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