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dropped this may be due to costs having gone down because agricultural production methods have improved or there has been a technological advance; or else taxation policies may have enforced higher exports. On the other hand, lower internal supply and the resulting "improved" trade terms may be due e.g. to higher internal consumption and a better living standard or a poor harvest. Again neither the improvement nor deterioration of a country's foreign trade situation can be assessed from the terms of trade.

By rejecting the terms of trade as a yardstick of the impact of foreign trade on a country's prosperity we do not deny that a declining terms of trade index may indicate an unfavourable trend for the developing countries. The decisive factor is the drop in the price of their exports. But if the trend is unfavourable for the developing nations this is only to a very small degree due to a protectionist policy of the industrialised countries. Certainly, import restrictions lead to a fall in the index (a deterioration) of the terms of trade of the exporting countries. But the extent and the intensity of such trade barriers is often exaggerated.

Apart from the consequences of misguided price arrangements (e.g. through international commodity agreements) there are three main reasons for drop-

ping raw material prices and thus for worsening terms of trade: 1) the industrialised countries have devised processes enabling them to replace the natural raw materials of developing countries by their own products (e.g. rubber, textile fibres, aluminium and synthetic materials); 2) in the case of many farm products demand in industrialised countries becomes considerably less elastic, and elasticity often drops to near zero, as the national income increases. This means that e.g. sales of tropical produce such as coffee, cocoa or bananas grow at a lower ratio than incomes; 3) on the other hand it has become possible to make mining or the production of agricultural raw materials more efficient. A case in point are new methods of growing tropical plants and fruit and combatting plant diseases.

Constant pursuit of "better" terms of trade and of doubtful international price arrangements is not the best way of using trade policies to help developing countries. It would be more advisable to do away with existing discrimination against the export trade of developing countries, to lower tariffs and other trade barriers against their processed foods and industrial goods to the level imposed on their raw material exports, and to make a serious start with dismantling the protective wall surrounding mining and agriculture in the industrialised countries. At least no one should do the opposite.

## Nigeria Joins the EEC — Chance of Aid by Trade

By Rütger Berchem, Aachen

The foundation of the European Economic Community in 1958 had been watched suspiciously by numerous developing countries. After all the traditional relations between some EEC member states and certain developing countries, particularly in Africa, was leading to a privileged position of the latter. In case of an association these countries, that in the meantime had become independent, received additional multilateral aid by the Development Fund for the associated territories of EEC countries, which is financed through contributions of all member states. In the long run the privileged position conceded to these countries could become important in the European market.

Before the establishment of the EEC especially the Netherlands and the Federal Republic of Germany levied only low duties, or none at all, on many products typical for developing countries, thus e.g. tropical products. The French market was largely reserved for the members of the Communauté Française. Consequently the introduction of a common external customs tariff of the EEC has led to a considerable increase of tariff rates for important products of the developing countries, while the privileged position of the already associated African countries remained unimpaired or could be extended even. This trend has been watched distrustfully by the EEC members' traditional supplier countries, also by the Latin American states. So far pressing difficulties have been

mostly avoided and the EEC market remains accessible to these traditional suppliers since the EEC commission granted duty-free quotas. These duty-free quotas have to be applied for by the importing countries and, moreover, the granting of them is a discretionary clause. Therefore this regulation does not offer long-term security.

Besides the EEC members' market is exerting a steadily increasing attraction on the developing countries. Since 1958 its absorbing capacity has grown more than that of the other traditional sales areas. Independent of suppositions expressed time and again that negative effects are dominating when customs unions are established, since such new economic areas would be inclined to isolate themselves from world trade, there is a growing interdependence between the EEC and world trade—also with regard to trade with developing countries. Among the industrial nations only Japan has surpassed the growth rates of the exchange of goods in terms of value. Table 1 is showing the last years' trend.

In spite of the generally positive development of trade with the developing countries the exchange of goods among industrialised states increased even more. The developing countries' relative share in world trade has steadily declined during the past years. Thus they are still facing problems, and thus the questions of the EEC foreign trade policy are im-

bedded in the set of problems connected with the international trade of industrial nations with less industrialised countries. Here it has to be considered that also the EEC includes areas with the typical features of backwardness and under-development. The wish for promoting these regions might clash with the developing countries' objectives in the sphere of trade policy.

**Table 1**  
**Trade of Developing Countries with Selected Industrial Countries**

Item and region	Value, 1963 all developing countries (millions of US-Dollars)	Total		Africa	
		1963	1964	1963	1964
		Indices, preceding year = 100			
<b>Imports into:</b>					
European Economic Community	8,800	108	112	109	117
United States	6,200	103	106	102	129
United Kingdom	4,200	106	102	114	107
Japan	2,800	126	115	168	130
<b>Exports from:</b>					
European Economic Community	6,300	103	108	108	103
United States	7,200	104	113	94	115
United Kingdom	3,100	100	101	107	100
Japan	2,600	113	117	145	137

Source: United Nations, World Economic Survey, 1965, p. 224.

One of the problems of international trade is the necessary decision either for economic blocs with mutual preferential systems or for an on principle low level of tariffs as an incentive to international trade. The GATT procedure of applying concessions universally once they are agreed on seems to be applicable to developing countries under certain conditions only. The wish for unilateral preferential treatment particularly of manufactured products from developing countries leads easily to the cementation of certain foreign trade structures and then the advantages of multilateral procedures are lost.

The EEC members' former colonial possessions have been associated in 1958. After these areas obtained their independence the association agreement had to be negotiated again. The new association agreement, the Convention of Yaoundé, superseded to a large extent the old privileges of the former colonial

masters. The Convention provides for some committees for the co-ordination of subject matters, on principle, however, it is also a free trade agreement for a fixed period, i.e. until 1969, although it considers and supports the development efforts of the, for the most part African, associates.<sup>1</sup>

While in accordance with the principle of reciprocity the markets of the associates are open to the EEC members, the former may levy duties corresponding with the requirements of their development and industrialisation or which as revenue tariffs serve for the financing of their budgets. The second European Development Fund, increased from \$ 581 million to \$ 730 million as compared with the first Fund, is designated not only for measures in the field of infrastructure but also for industrial projects and their preparation by pre-investment measures, respectively.

### Nigerian Negotiations for Association

Already in the negotiations on Britain's EEC membership an agreement had been reached that association with the EEC should be made possible for those African countries that had particularly close relationships to the United Kingdom.

In spring, 1964, Nigeria entered into negotiations on an association with the EEC at a time when Britain's membership had already been blocked by General de Gaulle's veto. The basis of negotiations was a declaration of the member states that applications for association made by African countries would be treated with sympathetic consideration. Instead of breaking off the connection with already associated African states and renouncing the ratification of the Convention of Yaoundé after the one-sided blocking of the British membership, this way was chosen in order to prevent European disagreement from spreading to Africa.

During the last years Nigeria's trade with the EEC states had shown a particularly favourable development and led to a considerable Nigerian export surplus. This development is shown in Table 2.

<sup>1</sup> They are Burundi, Cameroun, Central African Republic, Chad, Congo (Brazzaville), Congo (Kinshasa), Leopoldville, Dahomey, Gabon, Ivory Coast, Madagasy Republic, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo, Upper Volta.

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An agreement on the securing of this growing market was of extraordinary importance for Nigeria. All its export products could, after all, be substituted for by products from other countries, frequently even from countries already associated with the EEC. First of all the Nigerian conduct of negotiations was directed more towards a securing of the market than towards a future participation in its expansion. Dr. P. N. C. Okigbo, the best-known Nigerian economist, was appointed Ambassador to Brussels and entrusted with the conduct of negotiations.

The negotiations lasted for approximately 2½ years. Nigeria was expected to offer the EEC member states a preferential position in its market. This demand was the cause of considerable difficulties. Since the Conference of Berlin in 1888 Nigeria pursued a policy of non-discriminating individual trade partners. Britain, too, did not get a preferential treatment. The unilateral granting of trade advantages to EEC countries would easily lead to difficulties with the system of Commonwealth preferences. Part of the difficulties could be evaded by the arrangement that Nigerian concessions referred only to individual items with a relatively small import volume.

#### The Contents of the Agreement on Association

The agreement finally signed at Lagos on July 16, 1966, is not as comprehensive as the Convention of Yaoundé. Nigeria avoided agreements with possible political implications. Nigeria also agreed to the fixing of quotas for important export products while in accordance with the Convention of Yaoundé the market of the EEC members is to be kept open without any restrictions for the associated countries. Quotas at the EEC's internal rate of tariffs have been fixed for cocoa, palm-oil, peanut-oil, and plywood. Their

size is corresponding to the average export between 1962 and 1964, and the quotas are to be raised by 3% annually. For 1967 they amount to 32,900 tons of palm-oil, 73,000 tons of cocoa-beans, 7,100 tons of peanut-oil and 610 tons of plywood. On a first look it seems that the quotas would correspond with Nigerian requirements. However, 1964 to 1965 Nigeria already exported 116,000 tons of cocoa-beans to the EEC, thus a considerable part of them will be subject to a duty. It also remains to be seen whether and to what extent the quotas for peanut-oil and palm-oil will suffice to match Nigeria's endeavours at processing its own raw materials at home for which purpose several oil-mills are under construction at present. Similar are applicable to the problem of to what extent the European market will be able to absorb cocoa-products. A first factory for the processing of cocoa-beans is located at Ikeja and is supposed to go into production until 1967.

Nigerian concessions concern the elimination or reduction of tariffs on 26 products. However, fiscal dues (revenue-raising duties) on imports of these products will be maintained. The total Nigerian import volume of these items is relatively small and amounted to approx. £ 3.5 million in 1964.

At the effective date of this agreement the tariffs e.g. on butter, potatoes, noodles (e.g. macaroni, spaghetti, vermicelli, etc.), champagne, vermouth, liqueur, plaited hats, beads, fancy jewelry, parts of vehicle engines, and automatic selling machines are to be repealed. A reduction of tariffs by 50% to begin with is being planned for different kinds of fish, canned fish, tomato purée, beer, bouclé-fabrics, chenille-silk, silk, radio sets, and watches. Within two years tariffs on these products are to be gradually reduced completely.

Table 2

#### Nigeria's External Trade

(in million £)

Year	United Kingdom	Other Commonwealth Countries	EEC	USA	Other Countries	Total
Origin of Imports						
1957	66.1	11.6	26.1	8.1	40.6	152.5
1958	72.8	12.1	29.1	9.7	42.0	166.3
1959	80.8	10.9	33.0	7.9	45.8	178.4
1960	91.4	13.3	42.2	11.6	57.4	215.9
1961	85.2	17.2	44.3	11.9	63.8	222.4
1962	73.8	15.1	39.2	15.0	59.9	203.0
1963	70.8	13.5	44.2	17.9	61.1	207.3
1964	78.7	15.9	58.9	28.9	71.9	254.3
1965	85.0	18.0	68.2	33.1	71.0	275.3
Direction of Exports						
1957	78.4	2.8	32.2	7.6	6.5	127.5
1958	75.2	2.1	41.9	8.1	8.3	135.6
1959	82.6	2.6	55.7	11.8	10.8	163.5
1960	80.7	3.7	51.3	15.6	18.4	169.7
1961	76.5	3.5	58.0	19.1	16.4	173.5
1962	70.4	4.2	57.7	18.1	18.2	168.6
1963	72.1	4.9	68.2	17.4	27.2	189.6
1964	78.1	4.3	75.6	14.4	42.3	214.6
1965	101.5	5.0	96.3	26.2	34.3	263.3

Source: Federal Office of Statistics, Lagos, Review of External Trade 1964, p. 16-17. Economic Indicators, Vol. 2, No. 4 (April 1966), p. 19. Statistisches Bundesamt, Länderberichte Nigeria, 1961, p. 32.

It is not to be expected that the tariff preferences granted the EEC will lead to a considerable expansion of exports or to a shifting of the trade currents since it is a question of products which are not subject to high duties. It rather seems to be a question of mutual demonstrations of good will. This is also expressed by the fact that an appendix to the agreement contains the stipulation that Nigeria's interests in respect of its further industrialisation shall not be affected by measures resulting from this agreement. The considerably rising Nigerian oil exports have somewhat put in the background the country's traditional export products. Due to the one-sided economic structure of the different regions the further development of Nigeria's traditional export products is nonetheless of extraordinary importance. The agreement on an association with the EEC offers these endeavours an additional basis.

The agreement on association is expected to become effective not until 1967, as it still has to be ratified by several parliaments, e.g. the West German and the Italian one. It will expire together with the Convention of Yaoundé in 1969 and it is possible that then a uniform agreement will be concluded.

#### **The Association's Importance to Nigeria**

The apparatus of Brussels has become clumsier since differing interests make themselves felt after the impetus of a successful start has been lost. Neverthe-

less it is still possible to reach decisions of long-term importance. Apart from the resolutions in agricultural policy the preparedness for associating a member outside the traditional circle may lead to similarly far-reaching developments. The importance of Nigeria's association is underlined by its considerable economic potential as compared with other associated African states, for last but not least its economic capacity is about as great as that of all the other associated African states together.

In the past the association with the EEC has not come up to all African expectations. In the member countries also certain reservations have been voiced particularly with regard to the contributions of means for the Development Fund and their expenditure. Noticeable long-term implications are more important. Obviously there is a preparedness for opening the EEC and for securing the developing countries' markets. Nigeria's association may become a case in precedent for other association agreements. Kenya, Uganda and Tansania have already prepared the way for negotiations.

There is some hope that apart from the securing of traditional markets finally new markets for the products from developing countries will be created and that the EEC will assume a more positive attitude for instance towards efforts of the UNCTAD serving the developing countries' interests. And finally in connection with international trade the principle is still valid that export and import form a pair.

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