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Impatience with the dilatory progress of the integration process in LAFTA prompted the Andean countries — Colombia, Bolivia, Chile, Ecuador and Peru — to seek closer association by the Cartagena Agreement of May 25, 1969. The member countries of this so-called "Andean Group" are aiming on a subregional level at the objectives which have hitherto eluded Latin America on a continental scale — acceleration of trade liberalisation by an automatic programme of tariff cuts, a common industrialisation policy, coordination of national development plans and harmonisation over large areas of economic policy.

Compatibility with the Treaty of Montevideo was essential for the conclusion of the Agreement of Cartagena as all members of the Andean group are also members of LAFTA. The countries of the Andean group expressly stated that their subregional integration was intended to create more favourable conditions for further progress in LAFTA. Nevertheless there is no denying that through the Andean group an alternative to LAFTA has come into being which may erode the latter even more, especially if others emulate this example of a subregional integration unit.

Latin America and the European Communities

By Dr Jürgen Westphalen, Hamburg *

The Latin American reaction to the Common Market of European industrial countries was from the outset marked by scepticism and criticism. It was only recently that new tendencies have been discerned which can perhaps lead to a partial improvement in the relations between EEC and Latin America.

Various measures in European trade policy, especially on tariffs, have had a positive influence on the Latin American attitude to the EEC. New constructive proposals for the development of the mutual relations in the future have come from both sides — in the "Declaration of Buenos Aires" on July 29, 1970,¹ and the EEC Commission's report to the Community Council on "Relations with the Latin American Countries" of July 29, 1969.² A new approach to international cooperation has been indicated by the Bilateral Trade Agreement between the EEC and Argentina which was signed on November 8, 1971, and this may well be followed by similar agreements with other Latin American states.

The EEC has hitherto failed in giving the Latin American public an accurate picture of itself.³ As seen from Latin America, the European Common Market, on the one hand, sets an example worth emulating in its own integration efforts in the framework of the Central American Common Mar-

ket and the "Andean Group" and, on the other, constitutes a "selfish protective alliance" which handicaps third countries — and the developing countries of Latin America in particular — through its common external tariff, the protection given to local farmers and the policy of association.

Fears for Latin American Exports

The common agricultural policy — so runs the argument in temperate-zone countries of Latin America and in Argentina and Uruguay in particular — impairs Europe's imports of meat, cereals and other agricultural produce and aims at "self-sufficiency at a higher cost level . . . and possibly even export surpluses based on subsidies".⁴ The association policy — it is said in tropical countries of Latin America — with its tariff preferences gives aid and encouragement to the associated African countries competing with Latin America. A glance at the EEC's foreign trade statistics shows indeed that the fears of Argentina and Uruguay for the exports of their principal traditional products are not entirely unfounded. It must certainly be borne in mind that the common agricultural policy is not the only determinant of EEC imports of such agricultural produce from Latin America. Others, such as the trend of production

* Deutsch-Südamerikanische Bank.

¹ Cf. *Lateinamerika und die Europäischen Gemeinschaften (Latin America and the European Communities)*. In: *Kurzbericht über Lateinamerika*. No. 4/70. Issued by Deutsch-Südamerikanische Bank A. G., Hamburg. P. 12 seq.

² Cf. *Die Beziehungen der EWG zu Lateinamerika (The Relations of the EEC with Latin America)*. In: *Kurzbericht über Lateinamerika*. No. 1/70. Issued by Deutsch-Südamerikanische Bank A. G., Hamburg. P. 11 seq.

³ Cf. W. Renner, *Zusammenhalt der Gemeinschaft nach außen (The External Cohesion of the Community)*. In: *La Notion d'un Marché Commun dans un Processus d'Intégration*. Bruges 1969. P. 117 seq.

⁴ *Hacia la Coordinación de la Política Comercial de América Latina. Las Relaciones con la Comunidad Económica Europea. Análisis y recomendaciones del grupo de consultadores convocado por la Secretaría*. Issued by CEPAL. Santiago de Chile 1962.

in the Latin American countries and the competing supplies from third countries outside Latin America, may also have a material impact.

Foreign trade results to date do not provide convincing evidence in support of the frequent allegations about discriminatory effects of the association policy. Though the competitors in the associated countries of Africa have been helped by tariff preferences, Latin America has been able to increase its exports to the EEC area of such important tropical products as coffee and bananas quite considerably. Besides, the danger of discrimination recedes with the progressive lowering of the EEC's external tariffs. It is by no means impossible however, especially as the number of non-favoured third countries shrinks with the conclusion of more association agreements, that resentment at EEC discrimination will grow and spread in Latin America. The "European Development Fund" presents a separate problem in the context of European-African association as seen from Latin America. It is regarded as an instrument of preferential capital supply for African countries.

Trade Liberalisation Measures

The 125 p.c. increase in EEC imports from Latin America between 1958 and 1970 and the rise in the six EEC countries' share of total Latin American exports from 16 p.c. in 1958 to 21 p.c. in 1969 is due in part to the economic growth and consequent import expansion in Europe but to a large extent also to deliberate import promotion by the EEC. The tariff cuts of the Dillon and Kennedy Rounds may be mentioned as examples. In November 1970 the EEC Council of Ministers decided to bring forward the results of the Kennedy Round for certain products of interest to Latin American countries. Besides, cuts were made independently in the tariffs of tropical products like coffee (from 16 to 7 p.c.) and cocoa (from 9 to 4 p.c.). The most important scheme in this field lately has been the system of general tariff preferences for semi-manufactures and finished products from LDCs which was submitted to the World Trade Conference secretariat in September 1970 and put in force by the EEC on July 1, 1971.

This crucial new step for the liberalisation of foreign trade which the Community took before any other industrial country has awakened a very positive echo in Latin America. Depending on the extent of their industrialisation, Latin American countries are likely to benefit in varying degrees from the general tariff preferences. Relatively advanced countries, like Argentina, Brazil and Mexico, can be certain of positive effects on their exports. It can be generally expected that Latin America, having reached a comparably high

average state of development, will draw greater immediate benefits from the preferential system than the other LDCs. The measures taken in the field of tariffs in recent years however have largely exhausted the opportunities for action open to the EEC in the sphere of trade policy. Prior to July 1, 1971, no less than 45 p.c. of EEC imports from Latin America had already come in duty-free. The general tariff preferences have extended the scope for duty-free imports further.

The Report of the EEC Commission

A year before the "Comisión Especial de Coordinación Latino americana - CECLA" (Special Commission on Latin American Coordination) Declaration of Buenos Aires the EEC Commission submitted in its report on "Relations with the Latin American Countries" to the Community Council on July 29, 1969, various proposals for technical and financial aid for Latin America, for training Latin American integration experts and transferring development funds to the administration of the Inter-American Development Bank. The Latin American fears that European capital would as a matter of preference go to associated African countries will lose all validity if the last-mentioned suggestion is implemented.

The ideas developed in the Commission's report reach their logical climax in the aim of a "coherent global development policy of the Communities extending to the non-associated countries" which is "not to replace but complement" the development policies of the member States.⁵ A somewhat sober and realistic view is however taken in Brussels of the chances of carrying these ideas into effect before long. At this juncture it is not possible to venture a forecast of future relations between the enlarged EEC and Latin America. A few cautious conjectures is all that is offered here, and some questions may be formulated.

Forecast of Future Relations

Certain general conclusions about the EEC's future policy towards Latin America may be drawn from the terms for the Community's enlargement. The industrial tariffs between the new members and the Community, for instance, are to be removed in stages and the external tariffs of the new members are in like measure to be brought into line with the lower common tariff. A few Latin American countries in which industrialisation has advanced relatively far may derive certain advantages from this; to judge from ex-

⁵ Ph. Masserer, Hartes Tauziehen in Brüssel. Lateinamerika und die europäischen Gemeinschaften (A stiff tug-of-war in Brussels. Latin America and the European Communities). In: *Übersee-Rundschau*. Issue 10/11 (1971). P. 35 seq.

perience, it is best not to entertain too great expectations for cuts in the present external tariffs of the new EEC members. The impending tariff measures are likely to reinforce the trend towards a concentration of international trade in the direction of goods exchanges between the highly industrialised countries which has been noticeable for years past, for when Great Britain, Denmark, Norway and Ireland have consummated their entry, the conditions pertaining between the ten important European countries involved will resemble a domestic trade area. This means that in the foreseeable future industrial products from, e.g., Brazil, Argentina and Mexico will have to compete in the British market with duty-free products from Germany, France, Belgium, Holland and Italy.⁶

A similar trend may emerge in the sphere of private investment. It is known that in recent years direct investment abroad by the USA and also increasingly by the Federal Republic of Germany has, to the detriment of the LDCs, concentrated on a limited number of industrial countries offering large markets and relatively stable economic and political conditions. Of the total US direct investment in foreign countries in 1950 nearly 38 p.c. went to Latin America; in 1968 it was no more than 17 p.c. During the same period Europe's share in the US private investments abroad rose from just under 15 to 30 p.c.⁷ This trend may well be reinforced if the enlarged Common Market offers something like the "investment atmosphere of a domestic economy". This would certainly create an additional incentive for European private capital to seek employment inside the EEC.

Agricultural Market Order and Preferences

A further important condition for accession by the new EEC members and at the same time a cause of understandable misgivings in some countries of Latin America was adherence to the Community's agricultural market orders. Countering these Latin American worries, it can be argued that the pressure for re-examination and reform of the European agricultural policy is likely to be reinforced by the new member countries.

With regard to the policy on association the new EEC members may be expected to grant the associated African countries the same preferences as were conceded to them by the six old members under the Yaounde Convention. In addition all less developed Commonwealth countries are to be given the opportunity of joining the

Yaounde Convention to be concluded in early 1975. The experience gained with the policy of association in the past does not portend a serious danger of discrimination against Latin America. But in this field it is wrong to be satisfied with conjectures though based on experience, but the possible consequences should be carefully examined for each product and possible major negative consequences should be precluded by precautionary measures. It must be borne in mind in this context that when association is extended to the developing countries of the Commonwealth, which include Jamaica, Trinidad-Tobago, Barbados and Guyana, the European integration will reach out into the Caribbean area. It is not impossible that these four countries, which form the nucleus of the Caribbean Free Trade Area (CARIFTA), may — as a "European Bridgehead in Latin America" — help to fortify the relations between Europe and Latin America.

From this the following conclusions may be drawn for the EEC policy towards Latin America:

New spheres of Community policy towards Latin America should be developed, in addition to the traditional trade policy, in conformity with the suggestions of CECLA and the EEC Commission, especially in the fields of financial and technological cooperation.

As the circle of EEC member and associated countries grows and the group of third countries dwindles, the Community must accept an increasing measure of responsibility according to Article 110 of the Foundation Treaty for the harmonious development of world trade. It will, in consequence, be even more imperative for the European Common Market to be kept open to export products of third countries.

The enlargement of the Community will create new and greater chances for investment in Europe and therefore possibly hamper the investment of European private capital in Latin America. Such a development should be countered by effective measures for the encouragement of European private investments in third countries with few or no industries.

It is not yet possible to offer more than vague surmises on what the application of the common agricultural policy to the four new members and the extension of association to the less developed Commonwealth countries will imply for Latin America. Expert forecasts should take their place as soon as possible. The urgent research tasks arising in this context for economic institutes in Europe and likewise in Latin America present an interesting starting point for scientific cooperation between Europe and Latin America.

⁶ Cf. e.g. MCE mais amplo prejudicará Brazil. In: O Estado de São Paulo (October 31, 1971).

⁷ J. Westphalen, Wirtschaftspartner Lateinamerika. Hamburg 1971. P. 17 seq.