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# Consequences of Southward Enlargement for EC-Latin American Relations

by Guido Ashoff, Berlin\*

**Over the past two decades Latin America, due to both political and economic considerations, has been endeavouring to establish intensive cooperative relations with the European Community. For a variety of reasons this objective has so far only been achieved in part<sup>1</sup>. The Falklands/Malvinas conflict subjected these relations to a serious strain, the results of which cannot as yet be estimated. Another factor, in the longer term, is the European Community's southward enlargement. Latin American assessments of the effects of this diverge: a fear of serious disadvantages to trade on the one hand is matched on the other by the hope that Spain and Portugal will become champions of Latin American interests in the European Community.**

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**T**he southward enlargement will have an appreciable effect on the EC's foreign trade relations, especially its relations with the Mediterranean littoral states and other Third World countries. This is due not so much to the weight of the acceding countries as economic partners of the EC; their importance, especially in the sphere where their accession will produce the greatest changes, i.e. in trade, is relatively slight (cf. Table 1). Far more important is the fact that the EC's foreign relations are by now characterised by a complicated structure of differential market access conditions, preferential regulations and offers of cooperation, which render the position of third countries in the EC market with regard to numerous products largely interdependent and dependent upon political decisions by the EC.

In such a system of administratively regulated third-country relations the enlargement of the European Community by three countries which, with regard to both agricultural and industrial products, exhibit similar supply patterns as numerous developing countries, is bound to affect the overall structure. Whereas world-wide economic growth in the sixties and early seventies

considerably facilitated the liberalisation and increasing differentiation of EC external relations<sup>2</sup>, the present weakness of growth, the EC's internal structural problems (over 10 million unemployed in the Community of the Ten) and also increasing competition from advanced developing countries are progressively limiting the EC's scope for liberalisation of trade and development cooperation. In such a situation there is a risk that the southward enlargement may become a zero-sum game at the expense of third countries.

This risk becomes more real in the case of Latin America through the fact that this subcontinent (similarly to the developing countries of South-east Asia) occupies in the hierarchy of EC foreign relations a place that might be labelled "fourth countries". To the extent that the special preference relations of the

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<sup>1</sup> For greater detail cf. G. Ashoff: *Lateinamerika und die Europäische Gemeinschaft – Bilanz und Perspektiven der Außenwirtschaftsbeziehungen* (Latin America and the European Community – Review and Perspectives of Foreign Trade Relations), in: K. Lindenberg (ed.): *Lateinamerika – Herrschaft, Gewalt und internationale Abhängigkeit*, Bonn 1982, p. 263-291.

<sup>2</sup> Arusha, Yaoundé and Lomé Agreements; Generalised System of Preferences; free trade, cooperation or association agreements with nearly all Mediterranean littoral states.

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Mediterranean littoral countries (not so much the ACP countries) with the EC are impaired as a result of its southward enlargement, demands for compensation via trade policy and/or financial compensation cannot be ruled out. In the event that the EC gives way to such demands (e.g. because of overriding political considerations) the Community's scope of action vis-à-

vis "fourth countries", including Latin America, will be diminished.

### Spain and Portugal as Mediators?

The above view of the problem, which is based mainly on economic reflections, is frequently countered – in the Iberian countries and especially in Latin America – by the political argument that the quality of the relationships between Latin America and the EC will undergo a change because Spain and Portugal will be introducing into the EC their special historical, cultural and linguistic links with Latin America, thereby assuming the role of representatives of Latin American interests<sup>3</sup>. This political gain, it is argued, will also open up new opportunities for an intensification of economic relations with the EC. This expectation is supported by, among others, the following arguments:

- The intensification of economic relations between the Iberian countries and Latin America over the past few years. This is largely true of reciprocal trade, even though the amounts involved are only of any significance from Spain's point of view (cf. Table 1). Moreover, Latin America has since the mid-seventies become the preferred target region of private long-term capital exports from Spain (cf. Table 2)<sup>4</sup>.
- The strengthening of institutional cooperation between the Iberian countries and Latin America. Examples are Spain's and Portugal's accession to the Inter-American Development Bank (to which, incidentally, most European Community countries also belong), as well as, in the case of Spain, membership of the UN Economic Commission for Latin America (CEPAL), her observer status with the institutions of the Andean Pact and with the Organisation of American

<sup>3</sup> The idea that Spain (and Portugal) might become a bridge for the mediation of interests between Latin America and the EC has repeatedly been voiced by leading representatives of Spain, such as the then Premier Adolfo Suárez in Mexico in April 1977 and by the King of Spain on the occasion of a tour of several Latin American countries in September 1977. The idea has given rise, among a number of Latin American politicians, to hopes of a qualitative improvement of relations with the EC (cf. E. Greño Velasco: España y la integración iberoamericana, in: Integración Latinoamericana, Año 3 (1978), No. 25, p. 43; cf. also Frankfurter Allgemeine Zeitung, 21. 4. 1980, p. 14). Such expectations are encountered also in academic journals (cf. the editorial "España: puente entre América Latina y la CEE?", in: Integración Latinoamericana, Año 5 (1980), No. 45-46, p. 1-3).

<sup>4</sup> Special reference is made to the fact that Latin America's share in (effected) Spanish direct investments abroad rose from 14 % to 50 % between 1975 and 1980. At the same time the fact must not be overlooked that Spanish direct investments in 1979, at US \$ 78.2 million, still only accounted for 1.8 % of total foreign direct investments in Latin America (US \$ 4,316 million). (Cf. CEPAL/ICI: Las relaciones económicas entre España e Iberoamérica, Madrid, Santiago de Chile 1981, p. 121; Interamerican Development Bank: Economic and Social Progress in Latin America, Vol. 1980-81, Washington D. C. 1981, Statistical Annex, Table 51).

<sup>5</sup> SELA (Sistema Económico Latinoamericano) is a coordinating institution of the Latin American States, set up in the mid-seventies.

Table 1

### Trade Relations between the EC-9, Latin America and the Acceding Countries, 1970 and 1980

(in %)

	Exports		Imports	
	1970	1980	1970	1980
Proportion of the EC-9's foreign trade <sup>a</sup>				
Greece	0.9	0.9	0.3	0.4
Portugal	0.7	0.6	0.3	0.4
Spain	1.7	1.6	1.1	1.6
Latin America <sup>b</sup>	3.9	3.0	4.3	3.1
Proportion of Latin America's <sup>b</sup> foreign trade				
Greece	0.3	0.2	0.01	0.01
Portugal	0.2	0.3	0.1	0.1
Spain	2.4	3.1	1.5	1.9
EC-9	27.3	20.2	26.1	16.8
Proportion of Spain's foreign trade				
EC-9	46.3	48.9	40.2	30.7
Latin America <sup>b</sup>	13.2	10.5	9.7	10.4
Proportion of Portugal's foreign trade				
EC-9	41.9	54.6	48.3	39.5
Latin America <sup>b</sup>	2.3	2.6	2.0	5.0

<sup>a</sup> Including intra-Community trade.

<sup>b</sup> Latin America: Western hemisphere except USA and Canada, including Cuba and Venezuela.

Sources: OECD, Trade by Commodities 1970, 1980; IMF, Direction of Trade Annual 1970-76; IMF, Direction of Trade Yearbook 1981.

Table 2

### Spain's Long-term Private Capital Exports, Total and Share of Latin America 1975, 1977, 1979, 1980

(million US \$ and %)

	1975	1977	1979	1980
Long-term private capital exports	644.5	912.0	1,205.1	1,727.2
Share of LA (%)	34.9	41.6	49.0	54.3
Investments (total)	195.1	281.8	502.8	756.2
Share of LA (%)	13.3	9.1	18.7	19.5
Direct investments	90.5	143.7	223.2	269.9
Share of LA (%)	14.1	16.2	35.0	50.1
Credits and loans	449.4	631.1	702.3	970.9
Share of LA (%)	44.2	56.0	70.8	81.5
Commercial credits	327.5	566.6	662.5	931.4
Share of LA (%)	59.5	59.7	74.0	84.5

Source: CEPAL/ICI: Las relaciones económicas entre España e Iberoamérica, Madrid, Santiago de Chile 1981, p. 121.

States (OAS), her cooperation agreement with SELA<sup>5</sup>, as well as trade and cooperation agreements with a number of Latin American countries<sup>6</sup>.

□ The analogy with France and Britain, who brought their own special relations with their former colonies into the EC and made allowance for them in the shape of special preferential regulations (Yaoundé, Arusha and Lomé Agreements). With this in mind the expectation is sometimes expressed that Spain's and Portugal's accession to the EC will lead to an extended preference and cooperation policy by the EC vis-à-vis Latin America on lines similar to the Lomé Agreement<sup>7</sup>.

### Grounds for Scepticism

Contrary to the arguments above, this author is of the view that scepticism, or at least considerable caution, is called for with regard to the idea that relations between Latin America and the EC will be substantially improved by Spain's and Portugal's (supposed) role as mediators. Quite apart from the southward enlargement's probably negative effects on trade for Latin America (see below) the following are the most important arguments to the contrary:

□ A number of Latin American countries, especially the major ones such as Brazil, reject this idea. Thus the Brazilian President Figueiredo, on a visit to Lisbon in February 1981, declared coolly that his country did not need Portugal as a mediator to the EC<sup>8</sup>.

□ The option in favour of Europe and especially the EC is largely uncontroversial in Spain and Portugal, in terms of domestic politics, following these countries' external isolation during their dictatorships. Their accession to the EC will have priority in the shaping of the foreign trade relations of the Iberian countries (obligation to accept the common foreign trade policy of the EC)<sup>9</sup>. Greece's Treaty of Accession does not create a

precedent for divergent solutions. Furthermore, it does not seem very likely that Spain and Portugal, in situations in which they are anxious to protect branches of their own economies against increasing competition from third countries, will assume the role of champions of Latin America. This is not to say that a further intensification of relations with Latin America is impossible. Indeed it has already taken place in a variety of economic spheres and will continue to be possible (outside the regulated part of trade relations), quite independently of accession to the EC.

□ As for the idea of a special *political* mediator's role for Spain and Portugal, for instance within the framework of European Political Cooperation, two aspects at least call for consideration. First, both Iberian countries are members of NATO; this implies obligations which do not necessarily agree with Latin American interests. A topical instance was the Falklands/Malvinas conflict, in which Spain adopted a very reserved attitude while Portugal fully endorsed Britain's position<sup>10</sup>. For another thing, the two acceding countries' option for the EC is also a consequence of their re-democratisation process which has contributed towards a political sensitisation vis-à-vis the dictatorships of Latin America<sup>11</sup>. Against this background an undifferentiating mediator's role is scarcely imaginable. It is, of course, conceivable that the Iberian countries (their governments, or at least their left-wing parties) will, jointly with other EC member states, bring their influence to bear in the organs of the Community (Council, Commission, Parliament) in order to support democratic developments in Latin America. Whether such initiatives are in the interest of Latin America clearly depends to a great extent on political conditions there.

□ The analogy with France and Britain overshoots the mark for several reasons. Most of the former colonies of these two countries only achieved independence towards the end of the fifties or at the beginning of the sixties. At the same time they had very close trading, financial and currency ties with France and Britain. The maintenance and further development of these relations following the establishment of the European Economic Community (by means of the Arusha, Yaoundé and Lomé Agreements) was important for the economic viability for most of the young states. Conversely,

<sup>5</sup> Cf. E. Greño Velazco, op. cit., p. 43 ff.; G. Minet: Spanish and European Diplomacy at a Crossroad, in: Sussex European Research Centre (ed.): The Mediterranean Challenge, Vol. VI, Sussex 1981, p. 50 ff.; C E P A L: Primera conferencia iberoamericana de cooperación económica, in: CEPAL: Notas sobre la economía y el desarrollo de América Latina, No. 353, 1981, p. 3.

<sup>7</sup> Cf. F. Granell: El futuro del comercio hispano-latinoamericano ante el ingreso de España a la Comunidad Económica Europea, in: Comercio Exterior (México), Vol. 29 (1979), No. 1, p. 44. For critical comment on the idea of a Lomé Agreement for Latin America and on the "bridge theory" cf. N. Elkin: Dificultades del diálogo entre América Latina y la Comunidad Económica Europea, in: Comercio Exterior (México), Vol. 31 (1981), No. 12, p. 1427.

<sup>8</sup> Cf. Die Zeit, 20. 2. 1981.

<sup>9</sup> The EC has requested Spain to clarify her relations with Latin America in such a way that following her accession there should be no further obstacles to her assuming the obligations stemming from the common foreign trade policy (cf. Latin America – Weekly Report, 28. 11. 1980, p. 6).

<sup>10</sup> Portugal not only gave diplomatic support to the British position but also offered to allow the use of the air base at Lajes in the Azores by British troops (cf. Expresso, Lisbon 5. 6. 1982).

<sup>11</sup> The re-democratisation process no longer permits a revival of the falangist concept of a "Hispanidad" embracing Spain and Latin America (cf. G. Minet, op. cit., p. 48). The idea of a "Lusitanian Alliance" (Portugal, Brazil and former Portuguese colonies in Africa), pursued by extreme right-wing circles in Portugal after the 1974 revolution, equally has no chance of political success.

France and Britain naturally also maintained their political influence in their former colonies by means of these preferential relations. In none of these respects is there a comparable situation in relations between the Iberian countries and Latin America<sup>12</sup>. Besides, by no means all the former colonies of the EC countries belong to the ACP states (e.g. India, Pakistan or Indonesia).

□ The argument based on an analogy with the Lomé Agreement is also questionable on development-policy grounds since the ACP countries are mostly in the category of the poorest developing countries (LLDCs), to which only one country in Latin America belongs, viz. Haiti. The subcontinent exhibits an advanced state of development, one which requires different forms of cooperation. The only exception is Central America, with which the EC and a few member states (even without the mediation of Spain and Portugal) are at present considering an extension of development cooperation<sup>13</sup>.

### Changes Affecting Trade

The southward enlargement results in changes affecting trade, regarding both access to the EC market and access to the markets of the newly acceding countries. A distinction must be made here between industrial and agricultural products. From the point of

<sup>12</sup> An adequate analogy would just about apply to relations between Portugal and her former colonies in Africa. In point of fact, discussions between representatives of the Portuguese government and the EC Commission on an intensification of EC relations with Angola and Mozambique took place recently (cf. *Expresso*, Lisbon, 1./8. 5. 1982). Because of her once again closer economic and diplomatic relations with the two countries Portugal is now able to play a special role in the discussions.

view of Latin America these changes may be characterised as follows:

(a) In contrast to third countries, the countries acceding to the EC (at the latest following the transitional period) gain free access to the *EC market*. In the case of agricultural products the trade-diverting effects at the expense of Latin America are not likely to be of great significance due to the considerable differences in trade structures. Competing (but not very significant) exports from Latin America include wine, fruit juices and certain citrus fruits. More important, on the other hand, are the changes affecting trade in industrial goods. In spite of the free trade agreement which Spain and Portugal have with the EC there continues to be scope for further liberalisation, since the EC is still applying the Common External Tariff (in a reduced form) to Spain, as well as import restrictions on certain textiles, articles of clothing, paper, motor vehicle spares and steel products to both countries. With regard to footwear, moreover, import restrictions vis-à-vis third countries are to be expected.

These products, which are classified in the EC as sensitive, are typical in the sense that it is here that the comparative advantages of the acceding countries<sup>14</sup>

<sup>13</sup> The European Council agreed on 29./30. 3. 1982 to increase EC development aid to Central America in order to make a contribution to that region's economic and political stabilisation. The EC Commission thereupon proposed, on 19. 5. 1982, a special development-policy programme for Central America to a volume of ECU 65 million. The final decision, however, was postponed to the autumn of 1982. A development programme for Central America and the Caribbean is at present also being considered by the Federal Republic of Germany.

<sup>14</sup> Cf. G. Ashoff: The Southward Enlargement of the EC – Consequences for Industries and Industrial Policies, in: *INTERECONOMICS*, No. 6, 1980, p. 302 ff.

**Table 3**  
**EC-9 Imports from the World, from Latin America, and from the Acceding Countries,**  
**by Major Product Groups, 1980**  
(million US \$)

SITC	Product group	World <sup>a</sup>	Latin America <sup>b</sup>	Spain	Portugal	Greece
0 + 1 + 4	Foodstuffs, beverages, tobacco, vegetable oils	83,035	8,536	2,421	302	626
2 + 68	Agricultural and mineral raw materials <sup>c</sup> , non-ferrous metals	76,819	5,863	977	447	398
5 – 8 (excl. 68)	Industrial manufactures	386,088	2,650	7,621	1,946	1,839
65 + 84	Textiles, clothing	43,624	683	524	806	1,369
851	Footwear	5,355	104	328	91	47
67	Iron/steel	24,994	277	764	39	103
5	Chemicals	56,174	401	583	133	69
7	Machinery	152,458	602	3,533	391	61
0 – 9	All products	714,625	22,117	11,426	2,721	3,215

<sup>a</sup> Incl. intra-Community imports.

<sup>b</sup> Western hemisphere except USA and Canada.

<sup>c</sup> Except petroleum (SITC 3).

Source: OECD, Trade by Commodities 1980.

and, potentially, of Latin America are to be found. In view of the EC's increasing import restrictions in this field free access to the EC market on the part of the acceding countries means a relative deterioration of Latin America's position as a supplier, especially as Spanish and Portuguese exports of industrial products are already substantially greater than corresponding Latin American exports to the EC (cf. Table 3). Here we have the source of a possible impairment of Latin American exports (to the EC market!).

(b) The situation in the *market of the acceding countries* will deteriorate for Latin America primarily with regard to agricultural products. In adopting the Common Agricultural Policy the newly acceding countries will also adopt the special import protection with regard to products subject to market regulation (tariff duties, variable price-adjustment levies). In view of the fact that Spain and Portugal hitherto received a considerable proportion of their imports of beef, grain and sugar from Latin America, their accession to the EC will most probably result in a diversion of trade in favour of the EC which, in respect of these products, has achieved a self-sufficiency level of 100 % and more. In addition, the market regulations also represent an incentive to increase production within the acceding countries with the result that dependence on imports from third countries continues to diminish directly (though indirectly it might well increase, e.g. for feeding stuffs).

The liberalisation of imports of industrial products from the newly acceding countries<sup>15</sup> grants the EC (as well as EFTA, since there is free trade between the two in manufactures) a better position than third countries in the medium term in the market of the acceding countries. Since the product structure and the price level of exports of industrial products from the EC to the new member states (mainly raw materials, investment goods and consumer durables) differ clearly from the industrial exports of Latin America, trade-diverting effects will probably be of less importance.

(c) Adoption of the EC's foreign trade policy by the newly acceding countries means (1) adaptation to the Common External Tariff (industrial goods: av. 8.7 %), implying in most cases a lowering but in a few an increase of Spanish and Portuguese external tariffs; (2) application of the Generalised System of Preferences, including its exemptions, especially the textile import regulations within the framework of the Multi-Fibre Arrangement; (3) adoption of the Lomé Agreement. Under headings (1) and (2) increased competition may be expected from third countries, including Latin America, in the market of the newly

acceding countries, firstly because of the relatively high external tariff barriers vis-à-vis third countries (Portugal: av. 18.2 %, Spain: av. 18.0 %), secondly because of the relatively high price and income elasticities of import demand in the newly acceding countries for industrial goods which are typically part of the export assortment of the developing countries, and thirdly because of a similar supply structure in the newly acceding countries and in advanced developing countries<sup>16</sup>.

However, the improvement of Latin America's export potential should not be overestimated. The newly acceding countries are still relatively unimportant trade partners of the subcontinent (cf. Table 1). Moreover, other third countries, in particular the developing countries of South-east Asia, which have in the past been highly successful in exporting industrial goods to the EC, are given the same access to the market of the newly acceding countries. Adoption of the Lomé Agreement might even lead to a trade diversion with regard to tropical products in favour of the ACP countries and to the detriment of Latin America; such negative effects, however, are unlikely to be of any significance, given the slight importance of the newly acceding countries to Latin America.

### Quantitative Assessments

No detailed studies quantifying the expected trade effects are as yet available<sup>17</sup>, and due to their complexity such studies are very difficult to carry out. The value of the findings would in any event be limited in view of the relatively restrictive assumptions on which

<sup>15</sup> The nominal tariff protection of Spanish industrial goods imports from the EC (unweighted average 1976) amounts to 13.3 % (cf. R. J. Langhammer: Die Präferenzabkommen der Europäischen Gemeinschaft mit Entwicklungsländern – Anpassungsprobleme für die Beitrittsländer? (The Preference Agreements between the European Community and Developing Countries – Problems of Adjustment for the Newly Acceding Countries?), in: Die Weltwirtschaft 1980, No. 1, p. 192). Portuguese imports of industrial goods from the EC are subject, on average, to a protection of only 2.0 % (calculations for 1978); this is due to the reduction of tariffs within the framework of the free trade agreement with the EC as well as to the erosion of protection (due to inflation and devaluations) in a system of specific customs tariffs of the kind still in use by Portugal. In addition Portugal in 1979 introduced new ad valorem tariffs vis-à-vis the EC (on average 18 %) – (cf. A. Silva: A Indústria transformadora portuguesa e a adesão à CEE, in: Estudos de Economia, Vol. II (1981), No. 1, p. 74, 95.) In both Iberian countries there are still considerable non-tariff trade barriers whose tariff equivalents are almost impossible to quantify.

<sup>16</sup> Cf. R. J. Langhammer, op. cit., p. 188 ff.; the data on tariffs apply to imports of industrial goods and are taken from the sources listed in footnote 15.

<sup>17</sup> In addition to the two studies discussed here (SELA, CEPAL/ICI), two further (not yet concluded) investigations are concerned with the effects of the southward enlargement of the EC upon Latin America's foreign trade relations: one of these is being carried out by Georgetown University in cooperation with the Interamerican Development Bank, and the other on behalf of the EC Commission by the German Institute for Economic Research (DIW – Deutsches Institut für Wirtschaftsforschung), Berlin, in cooperation with the Iberoamerika-Institut, Hamburg.

such analyses (within the framework of static integration theory) are based. The order of magnitude of the effects which southward enlargement will have on Latin America can be roughly estimated using a simplified method, in which the volume of trade in the various product groups (customs tariff items) which will be positively or negatively affected is determined. Such data may be interpreted as a *maximal hypothesis*<sup>18</sup> but they do not state anything about the scale of export gains or losses actually to be expected. This simplified approach forms the basis of two investigations carried out by the SELA Secretariat and by the UN Economic Commission for Latin America (CEPAL) in cooperation with the Instituto de Cooperación Iberoamericana (ICI). Their findings are briefly outlined below.

### The SELA Study

The SELA study<sup>19</sup> was carried out at the request of the Latin American representatives to the EC and was submitted in March 1981. It has the advantage over the CEPAL/ICI study that the changes in the framework for Latin American exports in all four markets (EC, Spain, Portugal, Greece) are analysed. Its disadvantage, on the other hand, consists in the fact that it examines only the hypothesis of a worsening of Latin American export opportunities and excludes those cases in which opportunities improve (i. e. in the markets of the newly acceding countries as a result of the lowering of customs duties due to the adoption of the Common External Tariff). Table 4 sums up the results of the analysis.

The category "probable" covers all those customs tariff items (expressed in terms of the value of the relevant imports of the EC and the newly acceding

countries from Latin America) in respect of which a disadvantage for Latin American exports as a result of the EC's southward enlargement is already discernible. The category "possible" covers those cases in which a negative effect is possible but for which the precise trade regulations are not as yet known<sup>20</sup>. The second part of the table shows the ratio of the export volume affected in relation to the total exports from Latin America to the EC and the newly acceding countries respectively. (Comparison with Table 1 permits of conclusions with regard to their significance within the framework of total Latin American exports.)

Table 4 shows clearly that 33 % of Latin American exports to the EC, one-half of those to Spain and Greece, and 70 % of those to Portugal are sensitive in the sense of a worsening of trading conditions; measured against the total exports from Latin America (world-wide) this represents a share of 8 to 9 % (cf. Table 1). This means that the possible negative effects of the southward enlargement should not be overestimated, even though in the individual instance they may well give cause for concern. This is the case especially for a few countries for which the possible negative effects apply to a very high proportion of their exports to the EC or the newly acceding countries.

A relatively high proportion of exports to the EC must be classified as sensitive in the case of Jamaica (83 %), Surinam (79 %), Uruguay (69 %), Mexico (37 %), Paraguay (31 %), Argentina (26 %), Cuba (24 %) and Brazil (23 %). As for the (admittedly relatively unimportant) exports to the newly acceding countries, considerably more than half the exports are sensitive in the case of numerous Latin American countries. However, the worsening of trading conditions resulting from the southward enlargement affects more than 10 % of total exports (world-wide) in the case of only six countries: Uruguay (25 %), Surinam (19 %), Cuba (19 %), Paraguay (19 %), Jamaica (16 %) and Argentina (15 %); for all other Latin American countries this proportion is well below 10 %<sup>21</sup>.

**Table 4**  
**Disadvantages for Latin American Exports due to Southward Enlargement of the EC<sup>a</sup>**

	million US \$			as % of total imports by the EC and the acceding countries from LA		
	"probable"	"possible"	total	"probable"	"possible"	total
EC-9 <sup>b</sup>	2,129.3	375.2	2,504.5	28.2	5.0	33.2
Spain <sup>b</sup>	279.9	477.7	757.6	20.6	32.0	50.8
Greece <sup>c</sup>	—	—	52.1	—	—	53.4
Portugal <sup>b</sup>	109.3	15.2	124.5	61.8	8.6	70.4

<sup>a</sup> All products (customs tariff items) in respect of which access of Latin American products to the market of the EC or of the acceding countries worsens due to the southward enlargement, expressed by the value of corresponding imports by the EC or the acceding countries from Latin America; for further explanations see text.

<sup>b</sup> Year of reference: 1978 (in exceptional cases 1977).

<sup>c</sup> Year of reference: 1976 (in exceptional cases 1975).

Source: SELA: Impacto de la segunda ampliación de la CEE sobre las exportaciones de cada país latinoamericano (Anexo VIII), Caracas 1981, p. 11-19.

<sup>18</sup> The assumption being that exports of negatively affected products disappear altogether.

<sup>19</sup> SELA: Impacto de la segunda ampliación de la CEE sobre las exportaciones latinoamericanas, parte general y varios anexos, Caracas 1981.

<sup>20</sup> These comprise, among other things, the question of the inclusion of the Canary Islands in the Treaty of Accession, the conditions of adoption of the Lomé Agreement by the acceding countries, as well as the possibility that the acceding countries will call for a postponement or non-enforcement of the Generalised System of Preferences in respect of imports from developing countries.

<sup>21</sup> These percentage data were calculated on the basis of the data of the SELA study (cf. SELA, op. cit., Anexo VIII, p. 12 ff.; year of reference essentially 1978) in accordance with IMF: Direction of Trade Statistics Yearbook 1981.

### The CEPAL/ICI Study

The CEPAL/ICI study<sup>22</sup> has the advantage over the SELA study of considering not only the possible negative effects but also the positive ones which the EC's southward enlargement may have for Latin America. However, the analysis is confined to the effects of Spain's accession to the EC, leaving Portugal (and Greece) out of consideration. Its findings are summed up in Table 5.

The findings roughly agree with those of the SELA study as far as the volume of possibly negatively affected exports from Latin America to Spain is concerned (SELA: 51 % of total exports to Spain; CEPAL/ICI: 41 %) <sup>23</sup>. They are, however, considerably below the SELA figures for the scale of possibly affected exports to the EC (SELA: 33 % of Latin American exports to the EC; CEPAL/ICI: 6 %). The reason for this discrepancy cannot be fully explained by examining the two investigations<sup>24</sup>. The CEPAL/ICI study shows that, alongside possible negative effects, there may also be positive effects which after all affect 9 % of Latin American exports to Spain. Altogether, however, the probable negative consequences preponderate; to this extent the analysis confirms the SELA study.

### Conclusions to be Drawn

The extent to which the examined worsening of general trade conditions will actually affect Latin American exports (within the framework of the maximal hypothesis) depends on numerous variables, not least on the reaction of the participating agents. A few observations may be to the point:

□ The southward enlargement basically affects Latin American exports of agricultural products, subject to EC market regulations, to the newly acceding countries (primarily beef, grain and sugar). Owing to the mechanisms of the EC Agricultural Policy a displacement of Latin American suppliers in favour of the EC is entirely possible in this sphere. Two points should be borne in mind here: for one, the importance of the newly acceding countries as markets for Latin America is exceedingly limited (cf. Table 1); for another, one might consider whether in certain specific cases

special regulations might not be agreed for the transitional period or beyond, regulations in which the acceding countries themselves might be interested. Spain, during her negotiations on accession to the EC, has already proposed such exceptions for certain meat, coffee and tobacco imports from Latin America (in this special case one might speak of a mediating role played by Spain, although the proposal also serves her own interests). Juridical precedents exist for such exemptions: the protocols in the EEC Treaty concerning tariff quotas for the importation of bananas (from Latin America) to the Federal Republic of Germany, and coffee to Italy and the Benelux countries; the protocol in the accession agreement with Great Britain concerning imports of butter and cheese from New Zealand.

□ The quantitatively far more important consequences of the southward enlargement concern the export of sensitive industrial manufactures to the EC. The newly acceding countries are relatively competitive semi-industrialised countries whose free access to the EC markets is very likely to limit the EC's room for manoeuvre in trade in sensitive products. Nevertheless

**Table 5**  
**Positive and Negative Effects of Spain's Accession to the EC on Latin American Exports<sup>a</sup>**

	Spanish imports from LA (million US \$)	as % of total Spanish imports from LA	EC-9 imports from LA (million US \$)	as % of total EC-9 imports from LA
<b>Worsening of conditions for Latin America</b>				
Trade affected by increased Spanish tariffs	331.3 <sup>b</sup>	14.6 <sup>b</sup>	—	—
Trade affected by increased Spanish non-tariff barriers	497.5 <sup>b</sup>	22.0 <sup>b</sup>	—	—
Trade affected by improved access for the EC to the Spanish market	66.5 <sup>c</sup>	4.2 <sup>c</sup>	—	—
Trade affected by improved access for Spain to the EC market	—	—	753.1 <sup>c</sup>	5.9 <sup>c</sup>
<b>Improvement of conditions for Latin America</b>				
Trade facilitated by Spain's lowering of tariffs	71.9 <sup>b</sup>	3.2 <sup>b</sup>	—	—
Trade facilitated by Spain's adoption of the GSP	126.4 <sup>b</sup>	5.6 <sup>b</sup>	—	—

<sup>22</sup> CEPAL/ICI: Las relaciones económicas entre España e Iberoamérica, Madrid, Santiago de Chile 1981.

<sup>23</sup> The two studies are based on trade flows for different years, which may be the reason for the discrepancy.

<sup>24</sup> The SELA study arrives at higher values because it includes the effects of Portugal's and Greece's accession to the EC, as well as not only predictable but also "possible" effects; even so the divergence from the CEPAL/ICI study is very considerable.

<sup>a</sup> All products (customs tariff items) in respect of which access of Latin American products to the Spanish market or the EC market is changed either positively or negatively, expressed by the value of corresponding imports by the EC or Spain from Latin America; for further explanations see text.

<sup>b</sup> Year of reference: 1979.

<sup>c</sup> Year of reference: 1977.

Sources: CEPAL/ICI: Las relaciones económicas entre España e Iberoamérica, Madrid, Santiago de Chile 1981, p. 66; OECD, Trade by Commodities 1977, 1979.



the fact should not be ignored in Latin America that room still exists for improving export opportunities to the EC through increased competitiveness and differentiation of the range of goods on offer, even if protectionism in the EC is on the increase<sup>25</sup>.

□ The transitional period up to complete adoption of the "*acquis communautaire*" by the newly acceding countries enables any Latin American countries that might be unfavourably affected to adjust gradually to the changing trade conditions. In its comment on Spain's application for accession the EC Commission hinted at a transitional period of 10 years<sup>26</sup>. It should also be borne in mind that the date for the accession of the Iberian countries has not yet been finalised.

### Latin American Direct Investments

To the extent that the EC's potential for protectionism increases in the face of the difficult economic situation and the accession of three semi-industrialised countries it will become attractive to export-oriented entrepreneurs from third countries to ensure for themselves free access to the EC market by direct investment in the EC, especially in locations with low labour costs on the periphery of the Community. In this connection the example of Ireland is highly instructive: the rapid increase in foreign direct investment in that country over the past few years is presumably due not only to low labour costs or to the promotional measures by the State but also to its EC membership, which makes possible unimpeded exports to the EC<sup>27</sup>. Clearly

this method of circumventing the EC's restrictive import policy for sensitive industrial manufactures is available only to the industrially most advanced countries of Latin America, such as Brazil. Yet the fact that this is an entirely realistic perspective is proved by the intention repeatedly expressed over the past few years by spokesmen for the Brazilian economy and Brazilian entrepreneurs of making increased direct investments in Portugal in view of its future membership of the EC<sup>28</sup>. In Portugal these plans have met with a positive response both from entrepreneurs and from the government (intensification of industrial cooperation, job creation, stepping-up of exports). Similarly motivated industrial cooperation with Spain may likewise be expected.

The EC has already voiced concern over the fact that Brazilian enterprises are proposing to use Portugal (much the same applies to Spain) as a launching pad for exports to the EC<sup>29</sup>. There is fear that the competitive potential of the industrially advanced developing countries (but perhaps also of Japan) might be transferred to within the EC. Basically the EC has only two countermeasures at its disposal. One would be to control imports of sensitive industrial products from the newly acceding countries even after expiry of the transitional period; this, however, would jeopardise the entire project of southward enlargement.

The second possibility would be a tightening-up of the country-of-origin clause by increasing the intra-Community share of value added (in those cases where direct investments aim at an export-oriented processing of imported semi-finished products). If such a measure is considered at all, under GATT rules it cannot be applied only to individual third countries but must be applied universally. The result would be a trade conflict not only with advanced developing countries but also with the EC's most important trade partners among the industrialised countries (USA, Japan). A tightening of the country-of-origin clause would certainly also lead to conflicts between the newly acceding countries and the EC. In view of this situation it looks as if there would certainly be some scope for Latin American entrepreneurs to intensify industrial cooperation with the Iberian countries and to utilise this for exports to the EC.

<sup>25</sup> The fact that the development of Latin American exports of industrial goods to the EC so far has been determined not only by the EC's import restrictions but also by questions of competitiveness is demonstrated, among other things, by the fact that the EC's offer of preferences within the framework of the Generalised System of Preferences (GSP) has not been fully exhausted by Latin America in a number of instances (cf. B o r r m a n n et al.: *Das Allgemeine Zollpräferenzsystem der EG* (The Generalized System of Preferences of the EC), Hamburg 1979, p. 105). Conversely, several South-east Asian developing countries, in spite of even more restrictive market access conditions within the GSP, increased their exports of industrial goods to the EC to a considerably greater extent than Latin America (cf. G. A s h o f f, op. cit., p. 274). The below average competitiveness of Latin America by international standards is also pointed out by a "constant market share analysis" by UNIDO, which examines the determining factors of the growth of exports of industrial goods for a variety of developing country regions (cf. UNIDO: *World Industry Since 1960 – Progress and Prospects*, New York 1979, p. 160-165).

<sup>26</sup> Cf. EC Commission: *Stellungnahme zum Beitrittsantrag Spaniens* (Comment on Spain's Application for Accession), in: *Bulletin der Europäischen Gemeinschaften*, Annex 9/78, p. 22.

<sup>27</sup> Cf. R. S t a n t o n : *Foreign Investment and Host-Country Politics: the Irish Case*, in: D. S e e r s et al. (eds.): *Underdeveloped Europe. Studies in Core-Periphery Relations*, Sussex 1979, p. 108; A. C o u g h l a n : *The Impact of European Integration on Member Countries: Ireland*, in: D. S e e r s et al. (eds.): *Integration and Unequal Development. The Experience of the EEC*, London 1980, p. 129. The prerequisite is observance of the country-of-origin clause which (to put it simply) demands that at least 50 % of the value added ("percentage criterion") or else essential processing ("process criterion") are effected within the preference area.

<sup>28</sup> Cf. also *Expresso*, Lisbon 5. 1. 1980; *O Estado de São Paulo* 20. 3. 1980: *Portugal no MCE, ponte para o Brasil* (Portugal in the Common Market – a Bridge for Brazil); *O Dia*, Lisbon 8. 4. 1980; *O Jornal*, Lisbon 6. 2. 1981. In this context the Portuguese government is considering a free production zone in Sines as well as tax incentives to attract foreign and especially Brazilian investors (cf. *Expresso*, Lisbon 9. 4. 1982).

<sup>29</sup> Cf. *O Jornal*, Lisbon 30. 5. 1980: *Mercado Comum não aceita Portugal como ponte para exportações brasileiras* (The EC does not accept Portugal as a bridge for Brazilian exports).

### Reduced Scope for Financial Cooperation

Within the framework of the development cooperation of the EC and the EC member countries Latin America plays a very subordinate part if one disregards the Caribbean countries associated with the EC under the Lomé Agreement<sup>30</sup>. The southward enlargement will probably further restrict the scope for financial cooperation. For one thing, this enlargement requires a considerable transfer of resources – partially conceded already in the form of “pre-accession aid” to Portugal – to the new member states in order to reduce their problems in adapting to integration and ultimately to avoid undesirable political developments in the “young democracies”. The thus already circumscribed financial scope of the EC will be further reduced by the demands for financial compensation by the associated countries, above all from the southern Mediterranean littoral states which can expect export losses, principally in Mediterranean agricultural produce, and which possibly will receive financial compensation that could be at the expense of “fourth countries” such as Latin America.

### More Complicated Relations

An important reason for the graduated foreign trade relations of the EC (the “hierarchy of preferences”) may be found in overriding political motives. No secret is made of the fact that, for instance, political considerations play a part in the discussion of financial compensation to the Mediterranean countries for trade disadvantages arising for them from the EC’s southward enlargement (relations with Arab oil-producing countries, political stabilisation of the Mediterranean area on grounds of security)<sup>31</sup>. Latin America, on the other hand, is obviously less relevant to the EC in political and strategic terms. The southward enlargement will not vitally change the balance of this situation, for one thing because of the pattern of interests of the core of the EC, and for another because the foreign policy interests of the two Iberian countries are by no means concentrated on Latin America (in the case of Portugal these are focused far more on the country’s former African colonies)<sup>32</sup>. Hence the EC’s political priorities, even after the southward enlargement, will not lie in Latin America in the

foreseeable future and therefore no fundamentally new options or global policies are to be expected in favour of the subcontinent.

If the EC’s room for manoeuvre in trade policy further diminishes as a result of the southward enlargement then increasing disputes between Latin America and the EC may be expected. In this connection “symmetrical counter-measures” from Latin America of the kind hinted at in Resolution No. 44 of the SELA Council of July 1979 (on relations with the EC) cannot be ruled out. These include, e. g., the proposal of some Latin American states to exclude EC countries, if their protectionism persists, from major import orders or investment projects (in the infrastructural and energy fields). A trend towards negotiated trade relations, based on compensation, may be expected<sup>33</sup>.

In addition to trade relations there exists considerable scope for forms of economic cooperation not directly affected by the southward enlargement and not falling under the competency of common EC policy. These include in particular industrial and technological cooperation, an area of interest not only to Latin America but also to the EC and to Spain and Portugal. To Latin America the most important aspect is the need for further imports of capital goods and technology with a view to extending and developing its production structure and to the opening up of its vast raw material and energy potential. To the EC the subcontinent is attractive because of its raw material reserves, its advanced state of industrialisation and its large domestic market<sup>34</sup>. The Iberian countries, especially Spain, seem the most obvious cooperation partners because, being semi-industrialised countries themselves, they may meet more closely the requirements of many Latin American countries for “intermediate” technology or entrepreneurial cooperation<sup>35</sup>.

Admittedly, this reciprocal interest in cooperation cannot be realised within a conflict-free vacuum, but will interfere with trade and, indeed, also with political relations. Relationships between Latin America and the EC will become more complex as a result of the EC’s southward enlargement but perhaps also more open to more differentiated forms of cooperation.

<sup>30</sup> In 1979 Latin America (excluding the Lomé States of the Caribbean) accounted for a mere 4.7 % of bilateral and 1.5 % of Community development aid from the EC (cf. G. Ashoff, *op. cit.*, p. 276).

<sup>31</sup> Cf. R. Taylor: Auswirkungen der zweiten Erweiterung der Europäischen Gemeinschaft auf die Länder des südlichen Mittelmeerraumes (Effects of the Second Enlargement of the European Community on the Countries of the Southern Mediterranean), in: Europa-Information “Entwicklung”, Brussels 1980, p. 15.

<sup>32</sup> Greece’s accession, moreover, will face the EC with new problems which are bound to heighten EC interest in the Eastern Mediterranean (the Greece-Turkey conflict, the Cyprus issue).

<sup>33</sup> Cf. G. Ashoff, *op. cit.*, p. 288-289.

<sup>34</sup> Cf. E. V. Iglesias: Latin America on the Threshold of the 1980s, in: CEPAL Review No. 9 (1979), pp. 18, 24-28.

<sup>35</sup> Cf. G. Guzman: Commentaires sur l’impact possible de l’adhésion de l’Espagne à la CEE sur les relations avec l’Amérique latine, in: Institut d’Etudes Européennes (Université Libre de Bruxelles): La Communauté Européenne et l’Amérique latine, Brussels 1981, p. 151; L. Berréal: La politique latinoaméricaine de l’Espagne – Quelques éléments d’analyse, *ibid.*, p. 199.