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**Book Part — Digitized Version**

# The economic relations between the European Community (EC) and developing countries

Twenty-Three

# THE ECONOMIC RELATIONS BETWEEN THE EUROPEAN COMMUNITY (EC) AND DEVELOPING COUNTRIES

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## I. INTRODUCTION

Most member countries of the European Communities have historical links with Africa, Asia, Latin America and the Caribbean. It is therefore only natural to find the economic relationship between the EC and LDCs on the agenda of European integration from the very beginning. The Treaty of Rome provided the Community with powers to conduct a common external trade policy, usually referred to as the EC's Common Commercial Policy. An important part of the policy instruments included under this heading belong, at the same time, to the field of development cooperation. Economic relations between the EC and the Third World thus have two interrelated aspects, the trade and the aid aspect.

Institutionally, trade relations with LDCs are being dealt with in the context of bilateral and multilateral legal instruments, which today reach almost every developing country. Three developments put the EC-LDC relationship high on the European agenda for the 1990's:

(i) the fact that two major agreements are expiring soon (Lomé in 1990 and the Multi-Fibre-Arrangement in 1991).
(ii) the potential impact of the Single European Market, and
(iii) pressure stemming from the still ongoing Uruguay Round of multilateral trade negotiations within the GATT to liberalize North-South trade in agricultural products and services.

This paper focuses on the first two issues and proceeds as follows. First, the existing instruments of the EC's trade policy vis-à-vis LDCs are briefly presented and their performance is discussed. Then, the potential implications of "Project 1992" for LDCs in the areas of trade, investment and development assistance are explored.

## II. THE TRADE POLICY OF THE EC VIS-À-VIS LDCs

By establishing a customs union, as distinct from a free trade area, involving the gradual elimination of customs duties in trade between the member states, the EEC treaty had to provide for a common external tariff (CET). By taking the further step of establishing a common market with the free movement of goods, persons, services and capital, it also had to provide for a common commercial policy (CCP) to cover both trade within the EC and trade between EC member countries and the third countries. Old and new members were allowed transitional periods to introduce these trade policy measures. By January 1, 1993, the process of tariff cuts and adoption of the CET will be completed and the EC will become a customs union of twelve full member countries.

Actually the CCP began operating in 1968, after the six had implemented the CET. The member states had passed to the EC the power to enact foreign trade policy, i.e to negotiate international trade agreements, fix custom procedures and determine export and import policies, including measures to be taken in case of dumping or subsidies. However, in spite of this, the member states still retain a certain degree of autonomy in external trade policy by operating their own lists of specific products subject to national import restrictions. The member states are, in principle, required to seek EC authorization for national restrictions.

The Treaty of Rome pays special attention to a group of non-European countries which enjoys favourable trade and aid arrangements. These are countries and territories which formerly had dependency and colonial ties with some of the six. They are granted associate membership, meaning the agreement on rules regulating their trade with EC countries and the supply of development assistance. Furthermore, the Community is empowered to negotiate enlargement and other association and trade agreements with third countries.

Basically, the content of the CCP is to a large extent explained by the international obligations which the member states had already contracted prior to the Treaty of Rome. While a predominant part of their multilateral obligations were laid down in the GATT, their bilateral obligations were set out in the various trade agreements and treaties of friendship, navigation and commerce. Thus, an understanding of pre-EC obligations, particularly of the ones derived from the GATT, should constitute an essential background for an understanding of the CCP.

The contracting parties to the GATT have agreed to

- trade liberalization through the reduction of tariffs and the elimination of quantitative restriction and other non-tariff barriers to trade;
- non discrimination in trade through the application of the most-favoured-nation (MFN) clause with the derogations and flexibility necessary to accommodate regional economic integration and special and more favourable treatment for LDCs.

The first principle aims at transparency in trade conditions. Given that free trade, the first best policy, cannot be achieved in the short run, the tariff is considered as the least evil of the instruments available for trade control, because it is easy to identify and to negotiate. The second principle fosters a multilateral (as opposed to a bilateral) approach to trade liberalization. Three exceptions to this rule are recognized, however. First, the LDCs, as a group, may be subject to a more favourable treatment. Second, trade preferences already in existence before the GATT came into force (1947) were excluded from the MEN extension. Third, mutual preferences for free trade areas, customs unions and interim agreements leading to economic integration are specifically allowed, provided that certain requirements pertaining to the share of trade affected by such preferences and the time needed to complete the integration are met.

The EEC's CET was set by the Treaty of Rome at approximately 11%, which represented the arithmetical average of the duties applied in the territories of the six founding members. Although the average tariff level of the most important trade partners of the EEC, such as the USA and Japan, was substantially higher at that time, the GATT secretariat opposed the method of calculation and thus also the resulting tariff level, but with little success. Further, under the GATT negotiations on tariff reductions (mostly under the Kennedy and Tokyo Rounds) the CET was again reduced to approximately 7.5%. It is expected that the ongoing Round will pave the way for further tariff cuts.

Unfortunately, the CET does not apply across the board. It only affects trade in manufacturers, with the exception of coal and steel products, which are regulated under the Economic Community for Coal and Steel Treaty. Agricultural products and services are excluded from the CET. Agricultural products belong to the field of the Common Agricultural Policy (CAP), which involves own trade measures favouring EEC producers by protecting the domestic market and subsidizing exports.

Neither does the CET apply to all non-EEC countries. Goods originating in certain countries enjoy customs duty suspensions within the Community's General System of Preferences (GSP). Further, the EC accords preferential customs treatment to several countries in pursuance of bilateral agreements with African, Caribbean abd Pacific (ACP), Mediterranean and European Free Trade Area (EETA) and other countries.

In addition, special rules exist to control trade with state-trading countries. Agreements between the EC and individual member countries of the Council for Mutual Economic Assistance (CMEA) have been concluded, mostly on a year to year basis. Moreover, national quotas have been imposed on exports from CMFA countries resulting in a different treatment of individual CMFA countries in each EC member country; the latter also applies to non-CMEA communist countries. Also, the Treaty of Rome includes special arrangements for trade between the Federal Republic of Germany and the German Democratic Republic.

With a new wave of protectionism invading the industrialized countries in the 1970s and 1980s, the lowering of tariffs in the EC has been followed by the introduction of non-tariff barriers (NTBs). In the steel industry, for instance, the EC operates quantitative restrictions and voluntary export restraints (VERs).

The latter are bilaterally agreed quantitative restrictions on exports usually administered by the exporting party. Under the Multi-Fibre Arrangement (MFA), which limits the imports of textiles from LDCs, the EC has negotiated VERs with 25 states. Similarly, in trade with Japan, the Commission has been given the power to negotiate VERs. Meanwhile, EC member countries apply import ceilings bilaterally agreed with Japan and in some cases even resort to unilaterally imposed NTBs. Finally, the so-called new trade policy instrument, ant-dumping actions, has been increasingly applied to trade with South-East-Asian NICs and centrally-planned economies.

### *A. Trade Preferences for Selected Developing Countries*

The concept of preferential tariff treatment for imports, particularly from those originating in developing countries, is far from new. The United Kingdom already applied such a scheme within the Commonwealth and the USA used it, for instance, in trade with the Philippines and Cuba. Preferences definitely reached the status of an important issue in international trade policy since UNCTAD started to argue in its favour in the early sixties. The idea then was to use preferential treatment of LDC exports as a measure supporting industrialization and economic development; it was the external trade element of the well-known infant industry argument. Preferences were subsequently accepted by the UN but at first opposed by many GATT members, because they represented a departure from the GATT's principle of non-discrimination: It was argued that by applying non-reciprocal preferences offered by developed countries to all LDCs, rich countries would actually be discriminated against. In spite of that, international acceptance eventually followed and many OECD countries introduced unilateral trade concessions aiming at LDCs in the seventies.

Trade preferences for LDCs occupy important places in the overall hierarchy of the EC's external relations. They occupy places 2 to 7, after arrangements between EC and EFTA countries (first place). LDC groups (2: ACP, 3: Mahgreb, 4: Mashreq, 5: other Mediterranean countries, 6: other LDCs except Taiwan, and 7: China) are places before developed non-EEC members which are GATT signatories (USA, Japan, etc.) and receive MFN treatment, and COMECON members (excluding Romania and Cuba) which receive least favoured nation treatment. Taiwan is treated just as the USA. Thus, one can

indeed say, that the EEC treats unequal trade partners unequally. For LDCs this means that as a group they are treated better than other advanced non-EC GATT members, Taiwan and COMECON countries but worse than EFTA countries and, obviously, EC members. Within the LDC group, ACP countries enjoy the highest benefits, followed by the Mediterranean countries. On the lower side of the hierarchy are other LDCs, China and Taiwan.

Two preference schemes are of major importance for developing countries: the General System of Preferences (GSP) and the Lomé Convetions.

*1. The General System of Preferences (GSP)*

The EC's GSP was the first of the OECD countries' unilateral trade concessions to LDCs. It was introduced as of July 1, 1971. It would require a whole book to explain in detail the principles and operation of the GSP. Therefore, the discussion in this paper will concentrate on the outstanding features of this system, which are fundamental for the understanding of its effects on trade relations between the EC and LDCs.

The GSP is intended primarily to stimulate exports from LDCs. This is to be achieved through trade creation and trade diversion, two static economic effects of economic integration. Improved market access is supposed to generate trade and preferential access of LDC exports competing with exports from third countries is supposed to switch trade from third countries to LDCs. While the trade creating potential of the GSP has been undercut by improvements in MFN treatment of third countries in the wake of multilateral trade negotiations within the GATT, the trade diverting potential of the GSP was restricted by the EC in order to protect domestic industries and suppliers from other non-EC GATT members introducing a system of a priori (annually) set, country-specific quotas concerning imports of manufactures and semi-finished industrial products from LDCs. These are quantitatively restricted depending on whether a product is classified as sensitive (mostly textiles), a semi-sensitive or non-sensitive by the EC. It should be pointed out that about 4% of manufactures and semi manufactures are not covered by GSP.

Agricultural products are given only limited preferences, in fact less than a third of affected products are granted duty-free entry. The rest are granted fairly small tariff reductions; a few items are subject to a priori restriction. Services are excluded from GSP.

The scheme operates on the basis of a significant bureaucratic burden. In order to warrant GSP treatment, imports have to be certified as originating in a single GSP beneficiary country. Only in the case of 3 LDC economic groupings is cumulative origin possible. Excessively narrow rules of origin are designed to ensure that the product has been in a particular LDC and that it is not merely a repackaged, recycled or barely modified developed country product. Even products sent abroad to undergo further processing by firms located in the EC have to meet the originating criteria if GSP qualification is sought.

Finally, the scheme is governed by a safeguard clause which reserves to the EC the right to suspend preferential treatment if "serious disruptions" associated with these products are caused in the EC market. However, since import quotas for a wide range of products can be changed annually, this clause is somewhat redundant: it has never been applied in the scheme's history.

The mechanics of the EC's GSP differs from the schemes introduced later by other OECD donors. Broadly speaking, there are two categories of GSP. Those like the EC's and Japan's are based on annually predetermined import quotas, whereas those as the Scandinavian and the US schemes do not restrict imports a priori. The American scheme, for example, constrains imports in a discretionary way applying a "competitive need" criterion on a product-by-product basis; preferences are automatically withdrawn from countries supplying more than a given share of the US market. Also, product coverage and rules of origin vary quite substantially between schemes, while country coverage seems to be similar.

The characteristic differentiating the EC's scheme from all the others is the fact that it is offered to all members of the Group of 77, while at the same time the EC operates other preferences schemes for selected LDCs, generally involving more benefits that those offered under the GSP, as it is the case, for instance, with the Lomé Conventions. The EC's preference schemes are open to several subgroups of the Group of 77 as well as to non-members of the Group of 77. Thus, the EC offers different preferences to different subgroups of LDCs, where other OECD countries operate only one scheme each, thereby offering the same treatment to virtually all LDCs.

What economic impact did the GSP have on trade between the EC and LDCs? There have been several attempts in the economics profession to measure the impact of the GSP on, say, LDCs's exports and EC's imports, both

in terms of their volume and composition. Attempts have especially been made to measure the extent to which the GSP has contributed to trade creation and trade diversion. Some of these attempts, which are not comparable on the methodological basis, were conceptually sophisticated, due to the huge amount of data to be analyzed. This notwithstanding, the results were unambiguous: expectations were excessively high: only a relatively small group of newly industrializing countries (from Asia and Latin America) and some members of the ASEAN group, all of them showing world market shares in manufactures, have been found to have reaped benefits.

Why did so few LDCs benefit from GSP? First, in some cases the generally low MFN tariff levels for unlimited quantities acted as a much stronger incentive as preferences for a limited, often marginal quantity. That is, the GSP were not found to be trade creating. Countries "benefiting from the GSP" were actually already benefiting from MFN. Second, in other cases the GSP ceilings were only poorly utilised by most LDCs. This has to do with the fact that most LDCs's comparative advantage lies in agricultural and not so much in manufactured products. Agricultural products aré not particularly favoured by the GSP. Third, the tariff preferences associated with the GSP look somewhat obsolete in a world in which MFN tariffs are low and non-tariff barriers are used to control international trade. Fourth, the GSP did not work as an incentive for transnational corporations willing to set up export oriented ventures in LDCs, due to restrictive rules of origin.

*2. The Lomé Conventions*

The Treaty of Rome granted associate membership to certain overseas territories with political links to Community members. The association agreement entailed reciprocal rights and obligations emanating from the establishment of a free-trade area with two-way free access for each other's products. It also included the granting of EC aid. In the sixties the political status of many associated territories had changed and a new agreement, the first Yaounde Convention, was concluded. This agreement excluded the abolition of tariffs in inter-associate trade establishing the facto 18 free-trade areas. In 1969 the second Yoaunde Convention was signed, covering mainly the francophone Sub-Saharan African countries, and the Arusha arrangement, covering East African countries, came into being. The merger of these existing agreements

gave birth to the Lomé Conventions, the first of which was signed in 1975 by 9 EC and 46 ACP countries. It was succeeded by the Lomé II Convention which was signed by 63 ACp states and by the Lomé III Convention, signed by 66 ACP countries.

What are the provisions of Lomé III?

- Tariff preferences for manufactures: almost all ACP manufactures have EC access at zero or very low tariffs. EC exports get MFN treatment in return;
- Preferences for non-competing agricultural products: agricultural exports from ACP countries competing with EC products are in principle subject to the Common Agricultural Policy, but out-of-season products enjoy levy rebates and other exemptions. Special provisions exist for sugar,beef and rice which are subject to annual quotas. Non-competing products receive preferential treatment over third party supplies;
- The STABEX Fund provides funds for the stabilization of mainly agricultural exports from ACP countries, if certain requirements are met by the potential beneficiaries. As a general rule, states receiving STABEX funds are expected to pay them back, if their exports earnings improve;
- The SYSMIN scheme supports mineral production and provides compensation for instable export earnings in case of serious temporary disruptions of world mineral markets exceed, if given thresholds are exceeded. It also foresees investment subsidies for structural change in an affected mining industry or for diversification;
- Financial and technical assistance at the aid programme level (as opposed to the project level), the bulk of which is provided by the European Development Fund in the form of grants, soft loans and finance for the STABEX Fund and the SYSMIN scheme. The ACP countries are also offered access to loans from the European Investment Bank.

What was the economic impact of the Lomé Conventions on LDCs? Again, the interested researcher finds numerous studies, each using a different method of analysis. The results, however, are astonishingly similar: they do not find any significant gain for the ACP countries taken as a group. It is frequently argued

that the Lomé regime essentially revolves around ACP-EC trade relations, with its aid and other facilities playing a catalist role. Thus, the central issue is to what extent Lomé has improved the export performance of ACP countries, including the stabilization of their export earnings. It is found that:

- the Lomé regime failed to accomplish its objectives, because the ACP market share of EC imports has been rather declining, while the share held by other non-oil LDCs has been expanding. In particular, agricultural exports of ACP countries to the EC have been declining, whereas, at the same time, EC exports to the ACP countries have increased;
- at the country level not even 10% of ACP countries managed to expand their national share of EC imports;
- the diversification of ACP exports cannot be directly associated with Lomé preferences;
- the STABEX and SYSMIN experiences show mixed results;
- economic cooperation between the EC and ACP countries also shows mixed results;
- direct investment flow from EC countries to ACP countries was not influenced by Lomé.

The reason behind the poor performance of the Lomé facilities is very often seen in both demand and supply influences. The account stressing demand aspects focuses on non-tariff barriers in EC markets, administrative shortcomings (rules of origin) of the Lomé regime, and lower prices of agricultural products. The one stressing supply aspects concentrates on political instability and domestic economic policies in ACP countries.

*3. The Multi-Fibre-Arrangement (MFA)*

While the GSP and Lomé concentrate mainly on non-textile manufactures and some agricultural products, textiles trade between the EC and LDCs is regulated through a number of bilateral agreements based on the MFA. The story behind MFA begins in the 1950's when the cotton industries of the advanced countries began to feel the effects of cheap imports from low-cost countries. First negotiations resulted in the 1960s in the Short Term Arrangement for Cotton Products which was followed by a Long-Term Arrangement and extended thereafter. These arrangements were originally

devised as a temporary departure from GATT rules to allow the participating industrialized countries to restructure their industry. They pursued three goals: to increase access to restricted markets, to maintain orderly access to relatively open markets, and to control exports in order to avoid disruptions. Continuing trade problems in some industrialized countries (mainly the EC and the USA) as well as the feeling that cotton was not the only item that needed control led in the 1970s to multilateral negotiations on textiles within the GATT. This resulted in the first MFA in 1973 which has been extended twice since then.

The MFA permits developed countries to restrict imports of textiles and clothing from 28 LDcs. Originally, 9 developed countries, including the EC as a unit, participated but later others joined them, covering almost all OECD countries. On average, since MFA I, international trade in textiles and clothing has become considerably more restricted for LDCs than before. The dominant suppliers among them are the big losers. GATT expectations were that MFA could prevent a general rush into protectionism, after many developed countries had introduced unilateral actions against imports. However, the real world worked differently: instead of being reduced over time, protection in this industry actually increased, although the adjustment process in the developed countries has, at least in part, taken place with the advent of microprocessor technology.

Broadly speaking, 3 general regimes apply to imports of textiles into the EC depending on the products and the countries of origin:

- the MFA regime,
- the preferential regime for Mediterranean countries and for ACP countries, and
- the autonomous regime for products not covered by the other two regimes.

The Lomé Convention has been already reviewed above. The regime for the Mediterranean countries will be discussed in the next section.

Within the framework of the MFA, the EC has negotiated bilateral agreements with selected LDCs and selected COMECON countries, which are applicable to the whole range of MFA products. This resulted in a situation in which nearly all textiles and clothing products imported into the EC from MFA countries are subject to some restrictions, either by means of quotas or via the basket exit (agreeing on new quota if imports from a certain country tend to exceed a given threshold) and anti-surge procedures (under-utilized quotas may

be unilaterally reduced by the EC). The overall MFA system has become increasingly complex and non-transparent. The MFA has become the "living embodiment of the notion of managed trade".

MFA quotas have been found to be particularly harmful to countries with high export potential in textiles and clothing, as the South-East-Asian countries.

*B. Other Preferential and Non-Preferential Arrangements*

The EC has close ties with the Mediterranean countries that justify a specific policy for this region. The countries affected are: the Maghreb group (Algeria, Morocco and Tunisia), the Mashreq group (Egypt, Jordan, Lebanon, Syria), Turkey, Israel, Cyprus, Malta and Yugoslavia. The establishment of the EC, the introduction of the CAP and restrictions on imports of agricultural products meant that many of these countries could lose their most important export markets. In an attempt to maintain access, they asked for special trade relations.

This led to several agreements, very different in their legal structure from country to country, some taking the form of association with a view of eventual membership (Turkey), others aiming at establishment of free-trade areas (Tunisia, Morocco) and others offering only MFN advantages (Israel, Lebanon). The outcome was a mosaic of Mediterranean trade agreements. Finally, in an attempt to give these relations a more homogeneous appearance, the Global Mediterranean Policy was put into effect in the late seventies. The agreements themselves remain bilateral, however. The following principles evolved:

- for Arab countries and Yugoslavia the agreements are based on non-reciprocity. For Turkey, Malta, Cyprus and Israel on partial reciprocity terms;
- free access of manufactures to the EC. Exceptions apply to textiles, clothing, refined petroleum, for which quotas apply. The latter are larger than MFA quotas;
- agricultural products for which the EC is not self-sufficient may be exported to the EC subject to quotas and licences and tariffs. The same applies to off-season products. Non-competitive agricultural products are either granted free access or taxed with low tariffs;
- financial assistance from the European Investment Bank and technical assistance.

The problem with these countries is that they compete with those that joined the EC in the context of the second enlargement: Greece, Portugal and Spain. At least in the field of trade, Cyprus, Turkey, the Mahgreb countries and Israel were severely hurt by the second enlargement, particularly with respect to agricultural products. In the field of manufactures these countries were generally hurt by non-tariff barriers in several EC member countries.

Finally, the EC also maintains bilateral non-preferential agreements with some Latin American and Asian countries. Also under the MFA, agreements concerning textiles have been concluded with several Asian countries. China, the Yemen AR and the Andean Group. The economic impact of these agreements is not known.

## III. THE POTENTIAL IMPLICATIONS OF THE SINGLE MARKET FOR ECONOMIC RELATIONS WITH THE THIRD WORLD

The EC is currently on its way to achieve the single market until the end of 1992. This will undoubtedly be a giant step towards liberalization within the EC. Its effects on the world trading system are less clear, however. From the standpoint of LDCs, the key issue is whether future EC trade policies will evolve in a liberal or non-liberal direction. What will happen to the products currently exported by LDCs which are likely to be affected by the feared "Fortress Europe"?

One potential casualty of 1992 is the Banana Protocol of the Lomé Convention. It guarantees that no ACP state will be worse off than at present with regard to market access. The single market would allow internal trading of these bananas and thus question bilaterally agreed quotas due to substantial price differences, say, between (cheaper) Latin American and (dearer) Caribbean bananas. The latter could lose the race. ACP exporters are expected to fight for their quotas or to ask for compensation. The EC, on the other hand is unlikely to abandon all commitments to the ACP countries. We might predict some changes. Yet, the EC is unlikely to abandon all commitments to the ACP countries. We might thus predict some changes in the EC's banana policy.

Textiles are another sensible case. The impact of 1992 on textiles will be the automatic removal of national quotas in EC member countries. The European

textile industry has already voiced concern about greater import competition after 1992. It is pressing for lower EC quotas for most textiles products. But since the current MFA expires in 1991 and the Uruguay-Round of the GATT is also negotiating textiles, much will depend on what happens especially within the GATT. There are voices pledging for an abolition of the MFA.

There is also a great number of non-tariff barriers in individual EC countries which effect LDC exports, mostly exports from Asian NICs. Products affected are shoes, cutlery and consumer electronics. It is too soon to predict if these NTBs will be removed or not. The same applies to the introduction of common standards, new import practice and a common tax regime in all EC member countries. Common standards could affect, for instance, imports of cocoa (butter or bean) from ACP countries, due to a changing cocoa content of chocolate. Consumption tax changes could shift consumption of cocoa, tea, coffee and tobacco and thus also have some impact on trade.

For ACP countries, the new convention currently under negotiation will offer enough opportunity to keep the degree of access to the EC market enjoyed in the past at similar levels. Perhaps there will be some scope for an improvement of their terms. They have the task to negotiate favourable terms for agricultural products and rules of origin sympathetic to foreign direct investment. Other issues, as new members, structural adjustment assistance, human rights, STABEX and SYSMIN are also important. But in view of 1992 market access seems to be the central topic. There are, of course enough good reasons not to be particularly happy about the possible external effects of the single market. On the other hand, too much pessimism does not seem to be warranted by the evidence available. Trade must go on, as well as negotiations.

## IV. CONCLUSIONS

The lesson from most studies on the EC trade policies is that the aim of fostering exports from LDCs has not been generally reached. Neither have aims related to economic development of those LDCs. For example, in the case of the Multi-Fibre-Arrangement expert opinion is that its abolition would be expected to substantially increase textile and clothing production, employment and exports in LDCs. On the other hand, the poor performance of the different preference schemes is also associated with inconsistent policies in the LDCs.

These findings generally support the demands for a reform of (i) the EC's trade policy and (ii) the domestic economic policies of the participating LDCs. Such reforms would enable LDCs to increase their gains from trade and thus contribute to their economic development. The willingness to carry out reforms on both sides could eventually have a beneficial influence on current negotiations on a fourth Lomé Convention as well as on future decisions regarding a new Multi-Fibre-Arrangement.

In principle, a reform of EC trade policy should not constitute a necessary condition for the establishment of the Single European Market. However, to the extent that the single market will be a giant step towards a full liberalization within the Community, a re-allocation of resources will probably take place, due to the benefits accruing to the most attractive locations of economic activity from the free movements of goods and services. It is therefore very unlikely that such a process of EC-wide industrial restructuring will leave foreign relations unaffected. Changes may be expected in the direction and composition of trade. For LDCs non-discriminatory free market access for agricultural products, manufactures and services to the high income markets in the EC member countries would constitute the best form of development co-operation.