The Impact of Europe 1992 on the South

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The EC's decision to complete the internal market by 1992 has caused consternation in much of the South, but few states have been able to translate their general unease into specific concerns that can be articulated and defended. This uncertainty derives from the nature of the exercise. '1992' is a catchword rather than a specific date or a clearly identified set of actions. This is true even for the first and most fully developed element of the programme: the removal of barriers to trade between EC member states. The EC Commission is in the process of issuing 279 directives designed to remove existing barriers, but even if all of these are approved by 31 December 1992 (and this is by no means certain) much work will be required to put them into practice. They will have to be incorporated into the national laws of each of the 12 member states; even then, implementation will begin only as bureaucratic adjustment takes place and appeals by aggrieved companies and people to the European Court of Justice in Luxembourg take their course.

In due course detailed analysis will be required of how specific measures will affect particular Third World states; but it is not yet possible to move to this stage. How many barriers will remain by 1992, the precise regime that will succeed them, and the nature of the Community's posture *vis à vis* the rest of the world are all unclear. What is possible is to identify the types of effects most likely to affect particular groups of states. This is the object of the present article.

What is '1992'?

In one sense 'Europe 1992' is a less dramatic enterprise than is sometimes portrayed. In a nutshell, all that the EC members have committed themselves to do is to take steps towards the creation of a customs union that they had promised to take 30 years before (for the original Six) when signing the Treaty of Rome. The reason why the customs union has remained uncompleted is that the remaining barriers are precisely those that are politically the most difficult to remove. The new impetus derives principally from two decisions. One was the approval of the Single European Act in 1987 which sets the 1992 target. The other was the adoption of qualified majority voting within the Council in place of the previous unanimity requirement. This means that the chances of success are much higher than before since a single recalcitrant state can no longer block decisions. Nonetheless, doubts must remain that not all of the trickiest barriers will be removed. The EC Commission has already been forced to back down over *ex ante* harmonisation of VAT levels. Similar compromises on, for example, excise duties, are a strong possibility.

At the same time, the impact of 1992 may be profound simply because it brings into play a host of other issues on which an EC decision will be required to deal with the new circumstances. It is these consequential decisions that may have the most potent effects on the South.

Consider, for example, the common agricultural policy (CAP). At present, despite its name, there is no *common* policy in the sense of uninhibited trade within the Community. A highly complex system of special exchange rates and border taxes has grown up to enable some governments to pay their farmers more than others. The removal of border controls as part of '1992' will render some of the existing controls inoperable. The EC's response to this new circumstance is likely to include the closer alignment of member state prices [Matthews 1989]. This alignment could be upwards (which might tend to increase EC output) or downwards (with output declining); in either case, the effect on food importing and exporting states in the South could be substantial. It may also have specific effects on the African, Caribbean and Pacific sugar cane exporters which are the chance beneficiaries of the present 'green currency' system such that the prices they receive for their cane exports to UK are about one-eighth higher than those paid to beet farmers.

Consider also the question of migration. A common immigration policy may become necessary if border controls are suppressed within the Community. Countries that have especially favourable migration policies with one EC state may find that other member states insist on a deterioration of their terms of access. Further, the progressive dismantling of impediments to labour movements from Greece, Spain and Portugal (and to some extent from Turkey) is likely to involve additional restraints on migrant workers from non-member states.

There are three elements to the 1992 programme proper, not including such consequential decisions.

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They are the dismantling of direct controls on trade, the removal of indirect barriers, and a set of grand visions. They differ in their timetables, chances of success, and implications for the South.

The first element is the campaign against barriers at frontiers that halt the flow of people and of goods. Although there are many sensitive items on this agenda it is, perhaps, the easiest to fulfil and one with immediate importance to the South. The removal of national quotas on clothing imports will enable, for example, South Korean garments imported into Germany to be resold in France in competition with output from the Maghreb.

The second element is the fight against the barriers within — the many national rules which, while not ostensibly part of 'trade policy', effectively prevent goods being sold or persons moving freely from one member state to another. It includes the harmonisation and/or mutual recognition of national policies that might inhibit the free flow of goods, such as technical standards. In many cases this will require not simply changes to rules but also a shift in attitudes. For this reason, the struggle may be harder and take longer to result in major changes.

This part of the 1992 programme is of less direct relevance to the South except in three respects. It is less important because most LDCs do not have an export position to defend (because the internal European rules inhibit such exports), nor are they likely to be able to commence major exports when the barriers are removed (this is likely to be the preserve of other EC states).

The exceptions relate to technical standards, tax levels and official aid. The harmonisation or mutual recognition of technical standards may influence the level of demand for products currently exported by the Third World and their capacity to supply this demand (if, for example, standards are raised to levels unattainable by some states). The mutual recognition of technical standards for chocolate, for example, will enable British-style confectionery (with its lower cocoa content) to be sold in mainland Europe in competition with the higher quality, but higher priced, French and Belgian products.

European demand for cocoa might suffer and demand for alternative vegetable oils (such as palm oil) may gain.

A harmonisation of excise taxes could increase demand for coffee. Germany and Denmark both tax coffee heavily; if these consumption taxes were reduced to the European norm, demand would rise (although probably at the expense of other beverages of interest to the South such as tea). However, it now seems unlikely that such excise duties will be harmonised *ex ante*. They will only come down *ex post* if, in this example, the German and Danish governments find so many consumers purchasing their coffee in lower taxed Netherlands that the differential becomes unworkable.

The case of official aid also serves to illustrate both the potential gains from 1992 and the obstacles in the way of their attainment. A logical extension of the current moves to open government procurement to tenders from all member states would be to do the same for aid contracts. The Netherlands government, for example, has already indicated that it would allow companies from other member states to tender for its aid contracts, but there is a catch. This is that other member states must increase their aid to the current, relatively high, Dutch levels! If aid procurement does become Community-tied, its cost-effectiveness may rise, but the political willingness of member states to provide it may fall.

The third element of the 1992 programmes comprises the clutch of grand visions noted in the Single European Act. These include the 'social dimension' (which would establish minimum work and pay standards for all member states), economic and monetary union (which would provide the EC with a single currency and a European central bank), a European foreign policy and, ultimately, full European union.

Of these, the two of most direct relevance to the South are the social dimension and monetary union. If the Social Charter actually has teeth, and is not simply a vague declaration, it would tend to raise labour costs in the peripheral EC states that are most competitive with the South. This might benefit the South by increasing its relative competitiveness, but if it results in stronger southern European pressure for protection the net result could be adverse. Moves towards monetary union would have obvious implications for countries in the Franc Zone but would also affect all states that undertake a significant part of their trade with the EC.

The Broad Effects

The broad range of effects is set out in Table 1. This underlines the unfortunate 'on the one hand' and 'on the other hand' of 1992 analysis: the potentially adverse effects on the right side of the table are simply the inverse of the potentially positive effects on the left side! Whether, in the event, each element of the 1992 package falls into the left or the right column depends on how it is implemented as well as the product and non-EC state in question.

These broad effects fall into two categories: direct and indirect. Direct effects result from changes in the European economy induced by 1992. Indirect effects are the outcome of political decisions taken to influence the impact of these economic changes. The transition to a barrier-reduced Europe will provoke

Table 1 **Potential External Effects of 1992**

Positive	Negative
Positive	**Negative**
Trade creation (from faster EC growth)	Trade diversion (lower costs of EC production)
Less protectionism (no national NTBs)	More protectionism (more severe Community NTBs)
More liberal trade policy (majority voting)	Less liberal trade policy (to alleviate social costs)
Investment creation (from faster EC growth)	Investment diversion (increased attractions of EC)
More cost-effective aid (EC-wide procurement tying)	Lower total aid budget (less commercial incentive) (increased social fund demand)
Easier migration (removal of national barriers)	More restrictive migration (reinforcement of EC barriers)

adjustment costs for those countries and companies that do very nicely out of the existing restrictions. Those adversely affected by 1992 can be expected to exert pressure on their national governments and on the EC institutions to find ways to offset these costs. An obvious temptation in such circumstances is to transfer the costs onto third parties through increased protectionism.

The net direct trade impact on the outside world will be the result of two broad changes operating in opposing directions. To the extent that 1992 removes barriers between EC national markets and results in faster economic growth, third parties may benefit. The acceleration of growth should *ceteris paribus* result in increased EC imports, while the removal of internal barriers will make it easier for third party exporters to exploit the full potential of European demand.

Against this, the creation of more efficient production units within Europe will tend to increase the competitiveness of domestic supplies relative to imports. So the share of the EC market supplied by imports may decline. Whether or not the absolute level of imports falls depends upon whether this trade diverting effect is larger or smaller than the trade creation of faster EC economic growth.

Similar considerations apply to the effects on foreign direct investment (FDI). Economies of scale in information on investment opportunities abroad could increase the level of Community FDI. Joint efforts to promote FDI in some regions (such as Latin America and ASEAN) could lower the risks to investing firms through a Community investment guarantee instrument. On the other hand, the complete liberalisation of intra-EC capital movements, together with incentives given for intra-Community firms to cooperate, could divert FDI in favour of the EC regions which currently have the most barriers (the Southern countries of the Community).

There is still considerable dispute among economists on the scale of the direct effects [see Netherlands 1990]. But for most countries of the South the indirect effects, resulting from EC political decisions, may prove to be the more important because they will influence the distribution of benefits and costs between states outside the Community.

Some states may be more and others less protected from the adverse effects of 1992, depending upon the strength of their political relations with EC states and the skill with which they 'fight their corner'. Moreover, apart from the NICs, most Third World states will be affected less by the overall dynamics of the EC economy than by changes to the markets for specific products which bulk large in their exports. States exporting mainly primary products will tend to be less affected (positively or negatively) than those exporting manufactures. Because of the generally higher income elasticity of demand for manufactures they will be more affected by the trade creation of faster EC growth, but they are also more vulnerable to trade diversion (whether from more efficient European production or from protectionism).

Regional Impact

How far can this welter of conflicting possibilities be rationalised to provide guidance for states from the

Table 2 **Potential Dangers of 1992 for Different LDCs**

Country Group	Potential Dangers
NICs, MICs (e.g. East Asia, ASEAN)	Increased protectionism
Mediterranean (e.g. Algeria, Morocco, (Tunisia)	Trade diversion Investment diversion Restricted migration
Latin America	Investment diversion Increased protectionism
Africa, Caribbean, Pacific	Trade diversion

South? On which of the issues should governments from these states concentrate their diplomatic efforts to ensure that the effects are in the 'potentially positive' rather than the 'potentially negative' column?

A first step is to isolate those effects of 1992 most likely to have an impact on major groups. This is summarised in Table 2, which lists for various country groupings those elements of 1992 which could have the most serious adverse effects. Whereas the NICs have most to fear from the creation of a 'Fortress Europe', for some other groups, notably the ACP and Mediterranean states, a principal concern is the exact opposite: that the existing fortifications will be dismantled! This is because they have preferential access to the EC market; if restrictions on their competitors' exports are reduced, so will the practical value of their concessions. The issue is well illustrated by trade in manufactures in general and clothing textiles in particular.

The potential reduction in ACP and Mediterranean preferences will result from the abolition of national import quotas. At the present time the EC has two tiers of non-tariff barriers (NTBs) to imports: Community-wide barriers, plus additional national restrictions imposed by some member states on some products from some countries. The national tier is made possible by Article 115 of the Treaty of Rome, which permits states to restrict imports from their neighbours of goods originating outside the Community. This Article will become inoperative as part of the 1992 exercise; the abolition of customs controls on internal borders will remove the power of member states to limit imports from their neighbours and, hence, their opportunity to police national quotas.

The extent of national NTBs is very unclear, with widely varying estimates of the number imposed. One set of illustrative figures is provided in Table 3, which lists the requests for protection under Article 115 approved by the Commission in the period 1979 to 1987 according to the requesting country. The list is an incomplete one since there is a variety of other ways through which states can impose national controls, notably 'voluntary' export restraint (VER) agreements which are sometimes even negotiated on an industry-to-industry rather than a government-to-government basis [see also Pelkmans 1987].

Nonetheless, the table provides a useful insight into the relative incidence of national restrictions. It suggests that the countries that make most use of national NTBs are France, Ireland and Italy. Those with the fewest restrictions over and above Community-level quotas are Germany and Denmark (the figures for Greece, Spain and Portugal are not directly comparable since they were covered by their transitional accession regime during the period). In other words, states that export primarily to France, Ireland and Italy have more reason to be worried about possible increased competition from the NICs and other third party exporters than do countries exporting primarily to Germany/Denmark or having a broad geographical spread.

Table 4 rearranges the data according to the type of product for which Article 115 restrictions have been requested. Overwhelmingly the most important product is textiles (including clothing), followed by other 'sensitive manufactures'. The predominance of clothing/textiles is because the most extensive set of national quotas is that negotiated under the framework of the Multifibre Agreement (MFA).

The current MFA expires in mid-1991. One element in the EC's negotiating agenda for the regime that will succeed it is how to cope with the removal of national quotas. For most developing countries — but not the Mediterranean and ACP — the crucial feature of the successor regime is the overall size of any global quota: will they be able to sell more shirts and trousers after 1992 than before? For signatories of the Lomé Convention and Mediterranean Association Agreements, however, the situation is different. These

Table 3

Article 115 Case Acceptances, by Member State, 1979-87

	1979	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*Total*
Benelux	44	25	17	19	22	14	4	0	1	146
Denmark	3	4	0	0	0	0	0	0	2	9
France	124	105	80	85	57	39	66	67	62	685
Germany	6	1	2	2	4	0	0	0	0	15
Greece			0	0	0	0	0	0	0	0
Ireland	33	57	32	26	48	59	57	45	52	409
Italy	17	23	23	29	37	34	30	20	23	236
Portugal								0	1	1
Spain								4	13	17
UK	33	7	12	13	20	19	9	5	3	131

Source: Sapir 1989.

Table 4

Article 115 Case Acceptances, by Product Category, 1979-87

	1979	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*Total*
Textiles	199	164	120	116	131	120	119	102	105	1176
Other manufactures	59	53	43	52	49	37	45	36	49	423
Agricultural products	2	5	3	6	8	8	12	3	3	50

Source: Sapir 1989.

countries receive better treatment under the existing regime than do most other developing countries. There are quotas under the Mediterranean Agreements, and there have been VERs imposed on ACP states. But, in the main, the restrictions have been less severe, and applied less onerously, than those applying to the Asian and Latin American NICs. If the EC's clothing import regime is liberalised after 1992 this relative preference will be reduced. Moreover, to the extent that African exports are made primarily to the more protected national markets, there may be increased competition after the national quotas have been removed.

The Special Problem of Bananas

The issue of bananas has received some prominence, despite the tiny value of trade involved, both because the impact of 1992 could be particularly severe for one group of states and because it illustrates how decisions taken in the 1992 context can undermine the EC's existing agreements with the South.

At present about half of the Community's consumption of bananas is supplied by the ACP states and by the Community itself (the French overseas *départements*, Guadeloupe and Martinique, as well as Crete and the Canary Islands), while the other half consist of 'dollar' bananas, mostly from Central and South America. The former half enters the Community under special arrangements designed to preserve traditional markets. Thus, France provides a guaranteed market for bananas from its overseas *départements* and from Cameroon and Côte d'Ivoire. Italy and Britain provide similar guarantees for Somalia and for the English-speaking Caribbean and Suriname respectively. These guarantees are enforced through controls on intra-EC trade, legitimised by Article 115, to prevent dollar fruit being re-exported from, say, Germany to France. After 1992, Article 115 will become inoperative.

Although the EC and ACP producers enjoy a 20 per cent tariff preference over producers of dollar bananas (except in Germany where dollar bananas enter duty-free — for historical reasons), it is unlikely that they could compete without the guarantees. Most of the protected producers in the Caribbean, for example, are small-scale and relatively inefficient and, given their topographical disadvantages, even with major

restructuring of the industry their costs would remain considerably higher than those of the large plantations of Central America, Colombia and Ecuador. Their position within an informal dollar zone greatly restricts their ability to use devaluation as a tool to increase competitiveness. For a number of these countries bananas constitute a significant share of total merchandise exports — Guadeloupe and Martinique 50 per cent, St. Vincent and the Grenadines 40 per cent and Somalia 20 per cent — with the Community accounting for all (Martinique, Guadeloupe) or over 90 per cent (St. Vincent, St. Lucia) of their banana exports.

The Lomé IV Convention, which will cover the whole decade of the 1990s, repeats the commitments made in its predecessors to maintain preferential access for the traditional suppliers after 1992. But the current preference margin is unlikely to be adequate to sustain their exports. In order to give effect to these commitments, therefore, the EC will have to introduce special measures that would not otherwise figure on the 1992 agenda.

Although it is possible to identify a substantial number of mechanisms that would have the required effect, each of them suffers from political problems, and some are economically less desirable than others. The options, which are not mutually exclusive, include increasing the common external tariff, providing importer subsidies, using aid funds to increase ACP competitiveness and foster diversification, and temporary palliatives.

Raising the common external tariff to a level that would provide adequate protection to traditional suppliers would have to be negotiated internationally, since the tariff is bound in the GATT. Moreover, it would result in a significant increase in the cost of supplying bananas to Germany, and is therefore likely to be opposed by the German government.

Another approach would be to adapt the system currently used by the Community for oilseeds. This involves countervailing payments to processors to offset the costs they incur in using higher-priced sources of supply. In the case of oilseeds the high-priced raw materials are those produced within the Community; the payment is made to EC processors to encourage them to use European rather than imported seeds. In the case of bananas a similar payment would be required to the small number of large firms that supply the French, UK and Italian markets, but the purpose would be to favour one group of non-European suppliers against another. As such, the system would encounter more strenuous political opposition from within the Community, particularly in respect of its impact on the EC budget, than does the oilseed regime. It would also be contrary to the GATT rules.

A superficially attractive option gaining support from the liberal trade lobby is to use aid funds to assist the beneficiaries of the Banana Protocol to overcome the consequences of its removal. This could involve a combination of investment in production to reduce costs, assistance to diversify into new export commodities, and direct compensation for the loss of export revenue. Whilst such measures could well be provided as an addition to the Protocol, they are unlikely to be a satisfactory alternative. The Caribbean producers, at least, are unlikely to become competitive with those in Central America, while the loss of banana exports will make diversification more, rather than less, difficult. Above all, like many such aid compensation proposals, the scale of resources required is likely to be far in excess of current aid flows.

Possibly the most likely way out of the impasse would be for the EC to adopt temporary palliatives. One obvious way to avoid confronting the problem would be to grant derogations allowing UK, France and Italy to continue to use Article 115 in respect of bananas only for a specified period of time. The perishability of the commodity and the oligopolistic nature of the trade make the retention of national controls more viable than it will be for most commodities.

Conclusions

The EC will be taking decisions as part of the 1992 programme, and because of it, that will affect the interests of the South. At present, the precise implications are clouded by uncertainty. But, when the EC Commission does table detailed proposals, the window of opportunity for third parties to influence the decision is likely to be brief. For that reason, a start must be made now to identify those items on the agenda of potential significance to the various states and groups in the South, to monitor their progress and to seek out opportunities for influence.

The scope for influence is limited by the fact that, since it is an autonomous European affair, states outside the EC are not parties to 1992 decision-making. Their scope for influence is centred on any concurrent negotiations in which they are legitimate parties and which could involve decisions relevant to 1992. These include the GATT Round of multilateral trade negotiations, the renegotiation of the Multifibre Agreement, and the EC's next Generalised System of Preferences.

This article has dealt largely with the first two elements of the 1992 programme, aimed at removing barriers at frontiers and the barriers within. Little attention has been paid to the grand visions for the obvious reason that they are still too vague to be analysed in detail. Yet, in the long run, it may be this broader aspect of the resurgence of European internal dynamism that has the greatest impact on the South. It may reduce the

relative, if not the absolute, level of European interest in the world outside.

In the period when 'euro-sclerosis' was the catchword, development policy was advanced as one of the more substantial vehicles for demonstrating European unity. A former Commissioner for Development, Edgard Pisani, even described Third World policy as a 'cornerstone of European integration'. It is symptomatic of the subsequent change that development is now not even the exclusive concern of one Commissioner. Manuel Marin holds the portfolios of both development cooperation for the ACP and fisheries, the latter a subject of considerable concern to his native Spain, while another Spanish EC Commissioner, Abel Matutes, is in charge of relations with the rest of the South. The recent changes in Eastern Europe have added yet another area of competition for EC interest.

If there is a decline in EC concern with the world outside geographical Europe plus North America and Japan, the impact is likely to be felt most severely on the ACP and Latin America. The Mediterranean, after all, has a significant strategic interest for the EC which does not necessarily apply to Africa or Latin America while economic growth in East and South East Asia is likely to be sufficient to maintain European interest. This is the perspective of 2002, but it is one that should be somewhere in the background when focusing on 1992.

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