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# ECONOMIC GROWTH THROUGH REGIONAL ASSOCIATIONS<sup>1</sup>

The nations of Western Europe have organized two regional economic associations or trading blocs since 1957. In South and Central America, the Latin American and Central American Free Trade Associations have been formed. The Arab nations in Africa are associated through the Inter-Arab Trade and Payments Agreement. Other groups of nations are showing interest in forming such organizations.

The principal objectives of these associations are well summarized in Article 2 of the Treaty of Rome which established the European Economic Community:

It shall be the aim of the community by establishing a Common Market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between its Member States.

The main objective is economic growth—the realization of the benefits of specialization and exchange as has been possible in the United States, but without similar political unity, at least in the early stages.

Two principal types of associations have emerged: the free trade associations, such as EFTA, with scope limited to liberalizing trade among members; and the customs union involving free trade among members and common external trade policies. EEC is of this second type but its scope, as outlined in the treaty, goes much beyond that of a customs union. Other objectives of EEC include: free movement of labor, capital, and services; the development of a common agricultural policy; and the coordination of economic and social policies.

## THE EUROPEAN ECONOMIC COMMUNITY

The European Economic Community or Common Market is the most important and the most successful of the regional economic associations. Its importance is a function of the economic and political status and potential of the present six members and of those Western European nations (U. K., Ireland, Denmark, Norway, etc.) likely to join in the future. Its success can be attributed to: U. S. encouragement and support; the nature of the organization; the Eastern Bloc

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<sup>1</sup>During the summer of 1962 four teams of extension specialists visited Europe, Africa, Asia, and the Caribbean to study agricultural market conditions. Various members of the four teams were asked to work together in preparing this paper and the following four papers. This first paper was prepared by E. E. Peterson, University of Nebraska, and H. W. Herbison, North Dakota State University.

threat; the willingness to subordinate historical enmities and national self-interest for the gains of economic cooperation; the initiative and educational level of the people; and business-government cooperation.

### **Progress of EEC**

Significant and impressive progress toward the objectives of the Community have been made since its formation in 1957. The reduction of trade barriers among member countries and the establishment of common external trade policies are ahead of schedule. Internal tariffs have been cut by 50 percent for industrial products and 30 to 35 percent for agricultural products. All quotas on industrial imports and exports among members have been abolished. Common external tariffs or variable import levies have been set for some industrial products and for many agricultural products. A start has been made toward a common agricultural policy.

Less progress has been made toward achieving other economic and social objectives. The first regulations governing labor movement are in effect. Some capital movements have been freed of restrictions. Agreement has been reached on important elements of an anti-cartel policy.

The stimulus to economic growth provided by EEC is its main success story; the rates of increase in industrial production and gross national product have been 10 to 12 percent in each of the past three years, about twice those in EFTA, and four to five times the U. S. growth rates. Internal trade has increased 20 to 25 percent annually, and trade with outside countries has increased substantially. The pace of industrial expansion slackened in late 1961 and the first three quarters of 1962 because of a tight labor situation, inflation, and less foreign trade. Growth is expected to resume after a short "breathing spell" and to average 5 percent annually for the decade of the 1960's.

### **Political Unity?**

The willingness of such traditional enemies as France and Germany to work together and to surrender some national sovereignty for the economic benefits of the community is unprecedented. This raises the question of whether economic cooperation will eventually lead to political unity accomplished through peaceful methods where the military approach has failed over the centuries. Obviously this will not happen quickly or easily; the obstacles are formidable; but the precedents in economic cooperation now being set in Western Europe have implications far beyond international trade and agricultural policy.

## **ECONOMIC AND POLITICAL CONSIDERATIONS FOR THE U. S.**

The U. S. will gain from a politically stable and economically strong Western Europe, but at the cost of increased competition in international markets and greater bargaining power for the Community as compared with the separate countries. The Community will become more nearly a full partner in aiding underdeveloped areas, which will serve as sources of raw materials, as investment outlets, and as markets for industrial products. With reasonable trade policies both in the U. S. and in the Community, trade between these two large economic areas should expand in the years ahead.

### **EEC Trade Policies**

An issue of major concern to the U. S., and especially its farmers, is the external trade policy of EEC. While the first steps have been taken toward the development of a common agricultural policy, and regulations have been issued covering imports of such farm products as grain, pork, poultry, and fruits and vegetables, common internal price levels for these products have not yet been established. These levels and the measures necessary to maintain them will determine whether the domestic farm production of EEC will be based on comparative advantage or protectionism, and whether the outlook for U. S. exports is optimistic or pessimistic.

In this formulative period, the U. S. has the best opportunity to influence trade policy through negotiation. Some of the early regulations on farm products resulted in higher tariffs or import prices but a recent EEC bulletin (Vol. V., No. 2, March 1962) on agricultural policy contained an encouraging statement:

The Commission does not propose to allow an unduly high price level to give artificial encouragement to the existing trend toward increased production, as this would impair trade with nonmember countries.

### **U. K. Entry Into EEC**

Britain and the other West European countries likely to join if she does, provide an important market for U. S. farm and industrial products. Preferential treatment of certain Commonwealth countries in access to the EEC market would seriously impair our competitive position in wheat, tobacco, and fruit. A restrictive trade policy by EEC could result in greater exports to the U. S. of competitive products like meat from Australia and New Zealand, textiles from Hong Kong and India.

## **Strengthening U. S. Competitive Position**

The ability of the U. S. to compete for markets in Western Europe can be strengthened by more progress toward solving important problems in the national economy. These include the balance-of-payments problem; U. S. private investment in EEC countries; high costs in industry; and restrictions against imports. Public and private policy changes to be considered are: government expenditures abroad; tax revision to encourage plant modernization and expansion; increased trade negotiation authority; federal farm programs; business pricing and marketing practices; and labor union policies. Obviously these problems are very complex and the solutions very difficult, but more necessary than ever before.

### **OUTLOOK FOR U. S. FARM PRODUCT EXPORTS**

Western Europe is one of the world's principal wheat producing and trading areas. Nearly one-sixth of the world production is grown there, with France as the main producer. About one-third of all wheat exports are destined for that area, 450 to 500 million bushels annually. The U. S. serves as a residual supplier of 25 to 30 percent of the area's needs, or about 150 million bushels a year. In 1960-61, 22 percent of all U. S. wheat exports (over 235 million dollars) went to Western Europe's dollar market. The area will become self-sufficient in soft wheat by 1970 but will continue to import durum wheat and the hard red wheats for blending purposes. Canada has been the main source of high protein wheat, but recent experience in Italy shows that U. S. wheat can compete successfully on a quality basis.

The prospects appear favorable for exports of U. S. corn and grain sorghum to Western Europe at about the same level as in 1957-61 for the next five to seven years, with an increase after 1970. In recent years, the U. S. has supplied nearly half of the feed grains. Production of feed grains in Western Europe has been increasing recently but not fast enough to meet the needs of the expanding livestock and poultry industries.

U. S. exports of soybeans have been increasing since 1958, and future prospects are bright because of rising consumption of both oil and meal and because of crop failures in Red China. The demand will be stronger for soybeans than for oil because importing countries want to utilize processing facilities. The demand for meal is growing. The lack of competitive production will mean few import restrictions; Italy and Spain produce olive oil but both are deficit oil areas.

A growing market offers opportunities for larger exports of U. S. tobacco because Western Europe will never be self-sufficient in tobacco

production. Important factors in the tobacco export outlook are: whether Rhodesia obtains preferential treatment if the U. K. joins; and U. S. tobacco price policy. The U. S. has the possibility of competing effectively for the Western Europe tobacco market but such a market is not assured.

Western Europe imports nearly all of its raw cotton requirements. Rising consumer incomes in Western Europe will mean a growing market for clothing and household textile items. Under EEC, cotton has been defined as an industrial rather than agricultural product and has free entry into the market. In recent years, the U. S. has supplied 33 to 50 percent of EEC imports, which average about 30 percent of all U. S. exports. The future market depends upon: growth in Western Europe's textile industry; treatment of Commonwealth countries (India, Hong Kong, etc.); competition from synthetic fibers; and U. S. ability to compete on price and quality.

Poultry imports from the U. S. are prohibited in most countries for sanitary and protective reasons. Exports to West Germany, where entry has been permitted, increased five times from 1958 to 1961, to 262 million pounds, or 3 percent of the total U. S. production. On August 1, 1962, variable levies were put into operation on poultry imports to maintain the EEC "gate" or entry price, which is above the former German price. This will raise the price to consumers, reduce consumption and U. S. exports, and encourage intra-Community production. The outlook for U. S. poultry exports are now quite unfavorable unless the common price can be negotiated downward.

The exports of U. S. fruit to Western Europe will be affected most by the entry of the U. K. and Denmark into EEC, after which the common fruit import policy would apply to these important markets. This policy is now in effect and includes: quality standards; removal of internal trade barriers by January 1, 1966; and establishment of a common external tariff by January 2, 1969. Associated overseas territories of present EEC members, mostly in North Africa, will have duty-free access to the EEC market. Preferential treatment for Australia and other Commonwealth fruit-producing countries would severely reduce U. S. exports of EEC. This market will continue to expand with rising consumers' incomes. The problem for U. S. fruit exports in the future is mainly that of securing equitable treatment under EEC external fruit policy.

#### **EFFECTS OF EEC ON OTHER ADVANCED ECONOMIC AREAS**

The Community provides a large market for the products of other advanced economic areas of the world such as Canada, Japan, Hong

Kong, Australia, New Zealand, Argentina, and the EFTA countries. The concern of these countries over the impacts of EEC upon their economies is similar to that of the U. S. except that foreign trade is much more important for some of these than for the U. S.

The effects of EEC upon these countries cannot be evaluated until trade policies become more firm and a decision is reached on U. K. entry. Restrictions against imports of farm and industrial products would have serious world-wide repercussions which would inevitably involve the U. S. Japan and Hong Kong would be forced to trade with Red China in order to avoid serious unemployment and other economic and political problems. The adoption by EEC of such restrictionist policies is unlikely in view of these consequences. International commodity agreements will be used to a greater extent in the future for handling such problems.

## **ROLE OF REGIONAL ASSOCIATIONS AMONG DEVELOPING NATIONS**

### **Influence of European Arrangement**

Europe's Common Market holds the interest of most governmental leaders of "developing-economy nations." These leaders are seeking to learn how the concept of regional trade associations might be usefully employed in attaining desired economic growth and political stability through regional associations in Asia, Africa, Latin and Central America.

### **Interest Leading to Action**

Organizations already formed or contemplated indicate the values associated with the Common Market concept on the part of "developing-economy nation" leaders. In free Asia, the attitude toward regional association is that of wait and see, to learn from the mistakes or successes of others before moving in the direction of formal regional actions. In the African area of the world, the Inter-Arab Trade and Payments Agreement under which domestically produced agricultural products receive duty-free entry into other member countries is an accomplished fact.

The Latin American Free Trading Agreement (LAFTA) organized in 1960 under the Treaty of Montevideo currently involves the nine countries of Argentina, Brazil, Chile, Mexico, Paraguay, Uruguay, Peru, Colombia, and Ecuador. Under this agreement member nations are perfecting trade arrangements involving wheat and flour, coffee, lumber, fruits, cotton, sugar, cattle, cacao, fats and oils, and yerba maté.

The Central American Free Trade Agreement (CAFTA) signed in 1961 involves six countries: Nicaragua, Guatemala, El Salvador, Honduras, Costa Rica, and Panama. Its interesting features are: (1) a specified five-year period in which to test the arrangement prior to renegotiation on the part of Central American countries; (2) a tie-in with the Central American Bank for Economic Integration, which serves as a clearing house arrangement for member countries; and (3) equalization of import duties among members.

### **Effect Upon the U. S.**

The changing economic alignments and trading patterns evolving from regional trade agreements will involve the United States as well as developing nations. The European Common Market policies will cause many countries in the Caribbean area and throughout South America to look to the United States for more leadership in their trade expansion and economic growth. Commodity interests in the developing nations may seek U. S. guidance and leadership in negotiating better international commodity agreements for such products as coffee, sugar, and cotton.