Implications for bargaining of trade integration in Europe and its effects on LDCs

by

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A. Introduction

This paper attempts to examine briefly all the changes occurring in intra-European trade relations and their implications for different categories of developing countries, as well as for different economic sectors. It wishes to stress how the volume, complexity and simultaneity of changes taking place in Europe at the present time distracts attention of European policy-makers from multilateral trading issues (like the Uruguay Round), which are of such great and growing importance to developing countries.

The paper finishes with suggestions for strategic responses available to developing countries in the context of European integration, so as to ensure maximum access to those markets; it also examines briefly the implications of changes in Europe for the multilateral trading system.

B. EEC Trade Policy[1]

The EEC, much more than the US or Japan, has always divided the rest of the world into groups in its trade policy: its own members, EFTA, the Mediterranean, ACP, the Maghreb. As a result, the EEC has a highly complicated multi-tier system of trade preferences and import restrictions in its trade with developing countries. Preferences vary among regions, countries, as well as for products. The 68 African, Caribbean and Pacific (ACP) countries benefit from special preferences in the EEC's market. Successive Lome Conventions, have guaranteed duty-free access for ACP exports of manufacturers and for most agricultural goods not covered by the Common Agricultural Policy (CAP). Two countries (Haiti and Dominican Republic) signed the Convention for the first time in 1989, bringing the number of ACP countries up to 68, under Lomé IV. The second group of developing countries subject to preferential trade agreement are 12 Mediterranean countries which have free access to EEC market for most manufactures and semi-manufactures with restrictions in textiles and clothing. Agricultural products not covered by CAP benefit from reduced tariff duties.

A lower preferential status applies to developing countries of Asia and Latin America; these countries benefit from tariff preferences under the Community's GSP scheme. However, a considerable number of "sensitive" products are subject to tariff quotas or ceilings. Many of these EEC's TQs or ceilings (especially in textile and clothing) are still sub-divided into member States' shares of sub-quotas. Certain sub-quotas remain under-utilised, but there are restrictions on the transfer of unused portion to a member whose quota is filled; this increases the effective restriction on the textile and clothing exports of developing countries.

The main policy instrument to reinforce EEC quantitative restrictions such as MFA has been the use of Article 115. Article 115 of the Treaty of Rome allows member states to suspend free circulation of goods within the EEC, where outside suppliers are circumventing or threatening to circumvent member States' quotas by trans-shipping goods through another member state. However, if and when border customs checks are completely removed within the Community, then article 115 will become irrelevant. Article 115 has been used to reinforce quantitative restrictions imposed by individual member countries against third countries. With the completion of the single market, the EEC is compelled to adopt a uniform trade policy towards third countries. This means that these national restrictions have to be either totally eliminated or adopted by all the EEC. Although the first solution would be in the spirit of enhanced competition inherent in the single market initiative, and compatible with an open international trading system, it might not be politically feasible.

EEC member countries with a relatively high level of quantitative restrictions have been demanding Community-wide restrictions to replace their own protective measures in "sensitive" areas. Some member countries are seeking compensation for the protection they now enjoy. Such compensation could be in the form of higher tariffs (i.e. tariff equivalents of quantitative restrictions) or of import quotas set at Community level.

The adoption of a liberal trade policy by the EEC is more plausible should the completion of a single market prove to be a success than otherwise. However, it can not be ruled out that even an overall liberal trade policy might be accompanied by selective imposition or prolongation of protectionist measures at sectoral level. This would aim at "mature" and "weak demand" industries including clothing, textile, iron and steel which are of particular interest to developing country exporters.[2]

EEC trade policy in the last two decades has been characterised by increasing recourse to non-tariff intervention. As Jara[3] points out, especially during the 1980s there was a general trend amongst major developed nations towards greater protectionism and discrimination through changes in their legislations and administrative practices. EEC protectionist measures in agriculture are based on the CAP, which cannot be applied without restrictions at the border and subsidies to domestic producers. In other sectors, there has also been growing use by the EEC of non-tariff intervention, by mechanisms such as quantitative restrictions including voluntary export restraint (VERs), orderly marketing arrangements and basic price systems, imposed both at a Community, member state level or by both. Should the single market lead to abolition of member state sub-quotas this would mean some liberalisation, since each exporting country could exploit its EEC quotas more fully, as at present there are restrictions on the extent to which an unused portion can be transferred to a member whose quota is filled.

The EC has also been resorting to increasing use of countervailing and anti-dumping duties. Anti-dumping duties are increasingly directed at a wide range of heterogeneous products most notably electronic consumer goods. In addition to Japan, the main targets are South Korea, Taiwan Province of China, Hong Kong, Brazil and Mexico.

There would be a reduction of anti-dumping duties if liberal tendencies dominate the EC trade policy in the post-1992 era. Developing countries as a whole would gain from trade creation if there is a reduction in non-tariff barriers after 1992 although there would be some redistribution of gains among developing countries, given the highly differentiated trade policy of the Community towards different groups of countries. There are fears that the liberalisation process would particularly adversely affect ACP exporters in some manufacturing exports, such as clothing and, in some agricultural products, such as bananas, as in the latter case they will compete with lower cost Latin American producers.

C. Policy Developments in Europe

Major political and economic changes, as well as rapid progress in economic integration (especially but not only in the EEC) may eventually lead to a Greater European Market or European Economic Space. The transformation of the EEC into a true common market within which goods, services and factors of production are able to move freely is on course, and should be completed by the end of 1992. Full integration of Spain and Portugal into the EEC is taking place, with the process being completed by January 1992 for industrial products and by January 1996 for industrial products. Negotiations between EEC and EFTA countries on the formation of a European Economic Area (EEA) have been finalised. The objectives of the EEA is to extend the provisions of the Single European Market (SEM) to EFTA countries by ensuring the free movement of goods, services, persons and capital throughout the EEC and EFTA countries.

The EEA agreement is expected to bring major benefits to EFTA countries. However, the creation of an EEA would involve a considerable loss of autonomy for EFTA countries. Partly for this reason, Austria and Sweden have applied for membership in EEC and other countries may follow suit.

Trade restrictions on Eastern European exports to Western European countries have been eased. Moreover, 3 countries in Central and Eastern Europe (Czechoslovakia, Hungary and Poland) are now finalising negotiations with the EEC on association agreements which would gradually extend to them access to the SEM over a period of ten years. The agreements also call for the three countries' "ultimate, though not automatic", membership in EEC. The full details of these agreements are still to be worked out. Ties are also becoming closer between the countries in Central and Eastern Europe and EFTA countries. In late 1990, the EFTA countries, on the one hand, and Czechoslovakia, Hungary and Poland, on the other, began negotiations aimed at signing free trade agreements. Both the free trade agreements with EFTA countries and the association agreements with the EEC are asymmetric, in the sense that trade liberalisation and the removal of obstacles will be reciprocal, although the timetables will differ, being slower for the Central and East European countries.

D. Impacts on Developing Countries

These developments suggest that, during the 1990s, an essentially integrated market covering a large portion of Europe will emerge, with enormous consequences for the rest of the world. The trade of developing countries with Europe is bound to be affected, and groups of developing countries will be affected in different ways, depending not only on the composition of their exports to Europe but also on the position they are able to negotiate within Europe's scale of preferences. Also, as pointed out above, perhaps the main effect on developing countries is that the efforts of carrying out all these major changes simultaneously in Europe will distract attention in that region from multilateral trade efforts and from trade with developing countries.

Most of the quantifiable short- and medium-term effects on developing countries of these changes will be the result of the growth of demand and the evolution of market access conditions in the EEC. The expansion of the 1992 programme to EFTA countries will have lesser consequences for non-European trading partners because it involves a much smaller market than the EEC. The effects of European integration on Central and Eastern Europe will be of a long-term nature, largely because the current economic dislocation in these countries rules out any significant increases in imports, especially from developing countries. Special trading relationships with Western European countries could, in the long run, contribute to recovery in Eastern Europe and, to the extent that this is so, demand for tropical beverages, raw materials, simple manufactures and capital equipment will rise. If trade policies towards non-European partners remain open, developing countries could eventually be in a good position to increase their exports to Central and Eastern Europe.

Much of the current interest in European integration focuses on the completion of the Single European Market. The SEM is expected to have fairly quick impacts on developing countries. In fact, many of the effects may have already occurred.[4] Most of the EEC Commission's proposals to the Council for new EEC law or modifications to existing law have already been adopted, and business firms within the Community have already taken action in anticipation of 1992. A sure sign is the wave of mergers and take-overs, which has swept Europe since the launching of the SEM programme in 1985. There has also been a sharp increase in domestic and foreign investment in the EEC, partly induced by the SEM. These trends will continue. Other impacts will be of a longer-term nature and will depend, inter-alia, on how trade policies in Europe evolve in response to adjustment pressures.

The SEM is expected to have trade creating and trade diverting effects on developing countries. Increases in income in the Community as a result of the SEM will raise demand for imports from developing countries, leading to trade creation effects. On the other hand, EC's improved productivity caused by the SEM leads to trade diverting effects.

Davenport with Page, op. cit., provide recent estimates of quantifiable effects of the SEM on developing country exports, which are summarised in Table 1.

The total impact of the SEM estimated, at around 7b Ecu, is slightly above 5% of LDC exports to the EEC (in 1987). This would imply a rather modest total effect from the SEM, especially as LDC exports to EEC have been growing in the second half of the eighties at about 8% in volume terms. Therefore, the estimated net effects of the SEM would imply a boost to LDC exports of less than one year's worth of growth.

In proportion to existing levels of LDC exports, trade expansion effects estimated by Davenport with Page, would be important mainly in manufactures (and to a lesser extent in services, especially tourism), and primary goods. However, manufacturing trade diversion is estimated to exceed trade creation in that sector. Terms of trade effects, both in merchandise and in services, are expected to be favourable; this will be due both to higher EEC demand for commodities, which will increase their prices, and for lower EC export prices for manufactures and services due to efficiency gains.

TABLE 1

Estimates of impact of 1992
(based on 1987 data)

	EC imports from LDCs (m. Ecu)	Effects of 1992 (million Ecu)
Merchandise trade		
Creation, primary goods	60,864	3,223
Creation, manufactures	45,842	4,434
Diversion, manufactures		-4,651
Terms of trade effects		733
Sub-total:		3,739
Horticultural, fishery products, if member state quotas abolished	1,344	350
Textiles, member state quotas abolished	10,571	439
Elimination of excise taxes, 5% VAT		
Coffee	4,646	253
Cocoa	645	52
Tea	1,457	6
Harmonisation of taxes		
Tobacco	1,969	-63
Bananas	1,563	142
Services		
Trade expansion effects	22,705	1,227
Price of EC services		636
Total:	131,974	6,781

Source: Davenport with Page, op. cit.

Though estimates are by necessity crude, given that so many assumptions need to be made, they give approximation to the likely scale of the impact, which though important, is estimated to be both positive and limited. It should be stressed, however, that the above estimates for effects of elimination of member state quotas assume that there will be no new tendency towards more protectionism; however, there is a danger that 1992 could produce a protectionist reaction to the adjustment problems caused by the SEM, especially given the EEC's recent bad record on VERs, anti-dumping and other discriminatory practices discussed above. Should such protectionism emerge, the positive effects of member state quota abolition could be significantly reduced. Further relatively important diversionary effects can be expected from the rapid finalisation of the integration of Spain and Portugal into the EEC, especially as these countries compete more directly with imports from developing countries than do other Community producers.[5]

UNCTAD's Trade and Development Report 1991 estimates somewhat higher net trade creation effects than do Davenport with Page, mainly because they are based on rather high income elasticities, which may over-estimate somewhat trade creation effects; according to UNCTAD's estimates, net trade creation (excluding effects from terms of trade, abolition of national quotas and tax changes) would reach around 7% of LDC exports in 1988. The basic conclusion - that net growth of LDC exports as a result of 1992 - is likely to be positive and limited is not altered by these estimates.

UNCTAD's Trade and Development Report 1991 also provides an interesting decomposition of net trade creation effects, by categories of developing countries. The biggest gainers are reportedly the oil exporters of West Asia and North Africa and the economies of South East Asia, which export predominantly manufactures. The estimated net trade creation effects for ACP and Latin American countries is far smaller.[6]

Other effects of the SEM could shift import demand from one group of developing countries to others. The abolition of national trade restriction would be detrimental to producers from ACP countries and EEC overseas territories, who at present enjoy preferential access to specific EEC countries in commodities such as bananas, rum and sugar. The abolition of national quotas would probably be accompanied by a shift in demand to lower-cost suppliers among developing countries, which now face national trade restraints.

The effects of the SEM on developing country exports are therefore likely to be tangible, positive, but relatively small, assuming that EEC trade policy towards non-members remains unchanged. The evolution of policy toward non-EEC countries will be a fundamental determinant of the size, and even the sign, of its effects on developing countries.[7] The handling of national quantitative restrictions (QRs) - whether they will simply be eliminated, or whether they will be replaced by Community QRs, and how restrictive the latter are - will be crucial.

At present, there are two kinds of national QRs: those on horticultural and fishery products applied mainly by France, Italy, Greece and Belgium/Luxembourg on imports from countries such as Mexico, Argentina, Chile, Brazil, Egypt, Kenya, Israel, Côte d'Ivoire, Mauritius, Fiji, Thailand, Morocco, Cyprus and Cuba; and those applied under article 115 of the Treaty of Rome by several EEC countries mainly on the more industrialised developing economies of Asia and on China.

It is not clear how these restrictions will be handled in the post-1992 EEC. The optimal solution would be their elimination, but that outcome is far from certain, particularly in the current trading environment. In this connection, recent resort to increased Community-wide VERS in sector experiencing adjustment assistance and the upsurge of anti-dumping actions are a cause for serious concern. (See below, in Section E, suggestions for LDC possible strategic responses).

As Davenport and Page, op. cit., Jara, op. cit. and others show, the number of anti-dumping actions by the EEC has risen significantly in recent years, suggesting that 1992 may have already intensified resort to this instrument. In the early 80s, EEC actions against firms affected mainly Latin American countries; in the late 80s, these actions have been concentrated on high tech products, mainly exported by the Asian NICs.

The extension of the SEM to EFTA countries could have some trade diversion impacts on developing countries, since an EEA agreement would extend the cost-reducing benefits of the programme to EFTA producers of manufactures. Potential trade diversion would fall mostly on non-European developed countries, which are EFTA's major competitors in the EEC. The exports to the EEC of only a few developing countries overlap with those of EFTA. As regards trade creation in EFTA itself, even if incomes in EFTA are given a boost by

European integration, the small size of the EFTA market suggests that the positive trade impact on developing countries will be small.[8]

The effects of the extension of European integration to Central and Eastern Europe will be felt as trade with Western Europe increases. Trade flows between Eastern European countries and Western Europe are already important, the latter region taking almost 90 per cent of the former's exports to developed market economies in the late eighties.[9] Furthermore, since the beginning of 1990, C and EE exports to Western Europe have risen sharply and they are expected to continue expanding at a fast pace during the 1990s.

No comprehensive assessment of the impact of the recent trade liberalisation measures in favour of Eastern European countries is presently available. Preliminary estimates show meaningful although small gains. For example, the Community's concessions on textiles are estimated to be worth approximately ECU 80 million to Poland and ECU 50 million to Hungary. More broadly, Hungarian economists have attributed some one-third of the rather rapid growth of exports to EEC in the first half of 1990 to the European Community's liberalisation of trade.[10]

In the short to medium term, however, the response of Central and Eastern European exports to their newly granted trade preferences and to the even closer ties with Western European countries which can be expected to be developed in the 1990s will be severely limited by supply constraints. Therefore, developing country exports of manufactures are unlikely to face any significant competition from Eastern Europe in Western Europe markets for some time to come. However, the selective preferential access which the EEC is beginning to give in restricted products (agriculture, steel and especially footwear) to Eastern Europe could lead to same trade diversion for LDCs

The extent to which exports from C and EE can increasingly compete with exports from developing countries in European markets (and particularly in the EEC) will not only depend on the fact that relatively they will go up in the preferential hierarchy of the EC. The policies (e.g. exchange rate, wages, etc) which the C and EE countries follow (that affect competitiveness) will be at least as influential; furthermore, at least in the short- and medium-term, the risk of trade diversion will be linked to similarities in export structures.

A first approximation to this issue ranks (in Table 2) countries according to their similarity in their export structure to the EEC, with the export structure of the countries of C and EE to the EEC. It is reassuring to see that the countries of C and EE compete in the EEC markets mainly with each other. With developing countries they overlap much less, and they mainly do so with the Asian NICs and with China. The only Latin American country, where there is a relatively significant overlap with C and EE exports, to the EEC, is the case of Brazil (which is the only LDC for which Czechoslovakia is an important competitor, and which has amongst its competitors also Poland, Hungary, Romania and the USSR).

To offer more specific information, we examined the 46 most important products imported by the EEC (at levels above US$ 70m) from C and EE and their main LDC competitors in 1989. Brazil emerges again as the country that has most to fear from potential competition, in 10 items (which include motor cars, flat-rolled products of iron, unwrought aluminium, cyclic hydrocarbons, chemical wood pulp, footwear, semi-finished products of iron and steel, pig iron and ball bearings). Perhaps predictably the other LDCs which appear to compete most are Turkey (in 6 products), Taiwan (5 products), South Korea (4 products) and Hong Kong (4 products). Far less affected were other developing countries, with Mexico having to compete only with 2 products.

In the long term, preferential market access to Western European markets, combined with the advantage of physical proximity, could well have an impact on export oriented foreign investment in sectors in which central and eastern European countries have a comparative advantage. The high levels of educational attainment in Central and Eastern Europe, together with low wages, suggest that they could eventually gain competitiveness in technology-intensive manufactures and in some modern services.

Foreign companies have already expressed an interest in investing in Czechoslovakia, Hungary and Poland. So far, actual investment flows

Table 2

Rank of exporting countries according to the similarity of their sales pattern with those of East European countries in the EC (12), 1985-1987

Index Values

Rank	Soviet Union		Poland		Romania		CSFR		Hungary		Bulgaria	
	Country	Index	Country	Index	Country	Index	Country	Index	Country	Index	Country	Index
1	Canada	38	Hungary	55	Hungary	52	Poland	54	Yugoslavia	57	Hungary	47
2	Czechoslovakia	37	Czechoslovakia	54	Poland	51	Hungary	52	Poland	55	Czechoslovakia	44
3	Sweden	36	Romania	51	Yugoslavia	49	Austria	51	Romania	52	Yugoslavia	42
4	Brazil	35	Yugoslavia	50	Italy	43	Italy	46	Czechoslovakia	52	Poland	42
5	South Africa	34	Austria	44	Czechoslovakia	41	Belgium/Lux.	45	Austria	47	Romania	40
6	Finland	32	Italy	43	Bulgaria	40	Bulgaria	44	Bulgaria	47	Venezuela	37
7	Chile	32	Bulgaria	42	Portugal	38	Yugoslavia	44	Italy	44	South Africa	35
8	Ghana	32	Brazil	42	Austria	35	Brazil	44	Denmark	39	Austria	35
9	Poland	31	Belgium/Lux.	40	China	35	Sweden	42	Switzerland	39	Italy	33
10	Côte d'Ivoire	31	Portugal	40	Thailand	34	France	42	Netherlands	37	Belgium/Lux.	32
11	France	31	Spain	39	Greece	34	Netherlands	41	Belgium/Lux.	37	Greece	32
12	Israel	31	France	39	Turkey	34	Romania	41	Turkey	36	Brazil	32
13	United Kingdom	30	Sweden	38	South Korea	33	Switzerland	39	China	36	Other Europe	32
14	Belgium/Lux.	30	South Korea	37	Belgium/Lux.	33	Norway	39	Greece	36	Colombia	31
15	Norway	29	Denmark	37	Tunisia	32	Spain	39	France	36	China	30
16	Spain	28	Norway	36	Spain	31	Denmark	38	Portugal	35	Switzerland	30
17	Netherlands	28	China	36	Taiwan	29	United Kingdom	37	South Korea	34	France	30
18	Mexico	28	Netherlands	35	Denmark	29	Soviet Union	37	United Kingdom	33	Turkey	29
19	Australia	27	Finland	33	Brazil	29	Finland	36	Israel	33	Algeria	29
20	Venezuela	27	Taiwan	33	France	28	GDR	35	Spain	32	Denmark	28

Source: Calculations of the DIW based on OECD foreign trade data; table taken from U. Mobius and D. Schumacher "Eastern Europe and the EC, Trade Relations and Trade Policy with regard to Industrial Products". DIW Berlin. October 1990.

0 implies completely different structures and 100 completely identical ones.

have been small, but they are expected to grow fairly sharply as some of the obstacles to private investment, such as uncertainty over property rights, are removed, and provided there is political and macro-economic stability in these countries. Some fairly sizeable foreign investments in Czechoslovakia and Hungary have been in high technology and automobiles, with the Western European markets largely in mind, especially in the context of 1992 and a broader European space. In other markets, the likelihood of foreign direct investment flows to C and EE displacing LDC exports seems far less likely.

As regards FDI, also positive effects can occur from increased South-East links, implying mutual benefits. FDI from Central and Eastern Europe going to developing countries has been growing in recent years; furthermore, the trade and investment opportunities provided by changes in Eastern Europe and the Soviet Union have stimulated investment from LDCs.

In trade itself, the revolutionary changes occurring in Central and Eastern Europe can provide new market opportunities for developing countries, particularly if and when economic reforms in those countries are successful and lead to sustained growth (which cannot as yet have been taken completely for granted) and if special efforts are made by LDC entrepreneurs, governments and international institutions, to identify market opportunities rapidly, promote the demand for LDC exports, establish new trading links and explore or develop sources for trade finance. In the short-term, however, sharp declines in output and imports in C and EE countries have lead to overall rapid declines in imports from developing countries.

Should the current structure of trade links between developing and Central and East European countries remain and the level of imports start rising, demand for developing countries' (and especially Latin American) products would mainly expand in the items of foodstuffs, beverages and tobacco. This may be particularly true for non-essential tropical products (e.g. tropical fruit, coffee and tea), but also for other food products (e.g vegetables, seafood), where there is a great backlog of unsatisfied demand in C and EE, and therefore where income elasticities are far higher than in other countries, e.g. in Western Europe. However, this is based on C and

EE countries having sufficient foreign exchange to fund increased imports of consumer goods.

To the extent that, however, the countries of C and EE start to increase their industrial output, they will demand more raw materials. Furthermore, if we assume that the process of C and EE reform will be accompanied by important industrial and other restructuring, then it seems likely that there will be an important increase in imports of machinery, transport equipment and telecommunications mainly from industrial countries (provided there is sufficient domestically generated or external foreign exchange to finance it); it also seems likely that most of these increased machinery imports will be provided by the developed market economies, with possibly some share coming from the Asian NICS, though it is unlikely that other developing countries will benefit in a major way directly from such opportunities, (if important efforts are made, some benefits may arise in specific sectors), they may well significantly benefit indirectly from such a trend, due to increased demand (and higher prices than would have otherwise occurred) for their raw materials, used as inputs for machinery, transport equipment and telecommunications. Like in the case of 1992, there would be a favourable terms of trade effect for developing countries.

Furthermore, to the extent that industrial restructuring in Central and Eastern Europe results in the closing down of internationally uncompetitive factories, or plants, for example in traditional sectors such as steel, iron and coal, this may create unsatisfied demand particularly in those countries themselves, demand which could be satisfied by developing country exports.

E. Strategic responses available to developing countries

Before suggesting strategic responses for developing countries to the creation of the 1992 Single European Market and of a broader European space, it is important to make explicit some key aspects of the complex and rapidly evolving changes taking place in the EEC and more generally in Europe.

Regional European issues have become increasingly dominant in West European's policy-makers' time, efforts and focus. To the already significant efforts required to complete the EEC Single Market and to develop parallel measures, encapsulated in the post-Maastricht package, including a large expansion of the Community's budgetary allocation (which involve an important debate amongst the EC member governments about the size, structure and financing of such a large budgetary increase, as well as important efforts for its implementation), are added to the efforts of integrating Spain and Portugal, as well as negotiating with EFTA countries for closer links with the EC (via the EEA and via dealing with individual EFTA country's applications to join the EEC). To this already large but mainly predictable West European agenda, is added the large, complex and broadly unpredictable agenda opened for West European governments by the revolutions in Central and Eastern Europe, and the revolution as well as disintegration of the former Soviet Union. In terms of policy actions, West European governments are involved in a very broad range of actions, going from establishing more preferential trade links with these countries (as discussed above) and granting them aid as well as technical assistance, to help radically reform and restructure their economies,[11] to direct involvement in trying to prevent civil war, as illustrated for example by the role played by the EEC peace-keeping force and peace-making political efforts during the 1991 civil war in Yugoslavia.

There is evidence that, at least in the short-term, not only policy efforts but also the evolution of the Western European economy is being and will continue to be affected by events in C and EE and the ex-USSR (at present CIS). In particular, the West German economy is suffering, due to massive financial transfers to C and EE, and especially to the former GDR, from inflationary pressures linked to increased budget deficits; to counteract such pressures, a stringent monetary policy is being pursued, which leads to higher interest rates and lower growth in the largest and previously most dynamic West European economy; furthermore, high German interest rates create upward pressure on other West European countries' interest rates (and especially on EEC member countries, linked to the DM by the ERM), thus disseminating deflationary effects through the region. This slow-down of growth throughout Western Europe coinciding with the completion of the Single European Market in 1992, is rather unfortunate as it could accentuate a somewhat more protectionist outcome towards developing countries than would have otherwise occurred (see discussion in Section B, above). More broadly, should economic performance and political developments in C and EE as well as in the CIS continue for a long period to be both problematic and economically very burdensome for Western European economies, this could affect that region's economic performance, as well as their tendencies towards protectionism.

The large number and complexity of changes within and close to Europe will more broadly imply that the EEC's focus will be more "inward looking". The EEC seems not to have clear positive objectives in the Uruguay Round (like developing countries and the US have for agriculture and other sectors); its objectives tend to be more defensive (e.g. defend elements of CAP access to developing country markets in exchange for any MFA modifications). Therefore, as Davenport with Page, op. cit., argue "the GATT is clearly not the most important international trade forum for Community policy in the early 1990s". Even more, the EC was reported, in early April 1992, (Financial Times, 12 April, 1992) to be the only member of the GATT not to have agreed even in principle to support the Final Act, drawn up by Arthur Dunkel in December 1991 as a compromise reform package to break the deadlock of the Uruguay Round; though other GATT signatory countries expressed reservations with elements of this package, they have at least in principle supported it. As is well known, differences over farm trade, and particularly over the EC's CAP, as well as protection of US farmers, has become a major issue at best delaying and at worst blocking finalisation of the Uruguay Round. Therefore, it is even less likely that the EC could take up the leadership - which the US has to an important extent abandoned - of promoting progress in, and supporting discipline of, the multilateral trading system. This is particularly true, given that the EC's history of trade relations with developing countries has always stressed special (rather than multilateral) arrangements; though 1992 seems not to have accentuated this trend, it has provided encouragement for groupings like the ACP to adapt their own trade policies to the SEM and seek more special, new arrangements.

Already LDCs have suffered from the problematic affects on the Uruguay Round negotiations which was due to the fact that Community attention was pre-empted by 1992 and other European concerns, seen as more relevant and more pressing for the EC economy, with less attention paid to multilateral issues and particularly to the Uruguay Round. Furthermore, like the US (see Weston[12]), the EEC can afford to be more aggressive within the GATT, because of its pursuit of alternative trade strategies at a regional basis. Developing countries are particularly suffering from this change of attitude, given their clear interest now in furthering trade liberalisation through the multilateral system, and particularly through the Uruguay Round, as they have invested so many resources and so much effort in an expert-led model. Thus, as Weston op. cit., points out, it is ironic that at a time when developing countries have become so active in - and supportive of - the GATT, the EEC and the US seem to lose interest in the multilateral trading system, focussing on unilateral and regional interests.

Indeed, these distracting effects of European integration from multilateralist energies seem more important for developing countries than the quantitative effects of trade creation and deviation of European (and especially EEC) integration discussed above. The overlap of the run-up to 1992 and the Uruguay Round has however had some positive effects; as Davenport and Page, op cit., point out, the simultaneity of both processes has inhibited the EC Commission from more protectionist, 1992-related actions on textiles and clothing and probably on shoes and bananas. Furthermore, concerns about Community use of anti-dumping (see above) which seemed to increase in the run-up to 1992, led some LDCs, headed by Hong Kong, to form a group in the GATT to try to change arbitrary and biased EC regulations, such as anti-dumping. However, the EC - as well as the US - have resisted tighter rules and better disciplines as regards anti-dumping and subsidies, advocating instead that rules accommodate or even multilateralise their own practices (see Jara, op. cit.).

Though the Single European Market of the EEC has many potential positive effects for both LDCs and the GATT process (such as introducing new areas of competence), there is a concern that the Community's new self-confidence in international trade matters and the EC's perceived need to make 1992 work more effectively could lead the EEC to increase and broaden the areas of protection and trade negotiation. As Davenport with Page, op. cit., point out, this generates the risk of the EC setting rules of origin or national composition to restrict the benefits of trade concessions to all or particular LDCs or extend quota coverage, thus weakening the international trading system. The EEC's position and relative weight in the world economy will be further increased by closer links with EFTA (via the creation of a European Economic Space), further broadening of its membership by countries like Sweden, and by integration or semi-integration of Central and Eastern Europe, and possibly of the CIS. There are thus legitimate fears that the increase in the size and growing integration within the EC could be abused, with the EC using similar measures to the US Super-301 measures (see Weston, op. cit.), which the GATT has been powerless to stop or regulate.

As regards trade diversion effects resulting from the creation of the SEM, it would seem desirable for LDCs (or for international and regional organisations concerned with their access to markets) to attempt to develop an appropriate methodology and evaluate, ex-post, the magnitude of those trade diversion effects; this could serve as a basis for assessing possible compensation by the EEC for such trade diversion.

There seems to be a genuine concern that the international trading system will become increasingly dominated by co-operation among a group of three participants, the greater Europe, USA and Japan. A clear example of how the EEC has begun to use its increased power is reflected in its demands for "reciprocity" (from developing and developed market economies) in return for continued access to EC markets, a position which seems inconsistent with the most favoured nation principle. Indeed, the Single European Act did not reaffirm the obligation in the EC Treaty to promote trade between EEC and third countries. On the contrary, the Commission argues in its White Paper that third countries should not benefit from the advantages of a larger market after 1992 unless they make concessions. An illustration of how the EEC could potentially use the "principle of reciprocity" as a bargaining chip is given by the Community's submission of July 1989 to the GATT Negotiating Group on Textiles and clothing; here the EEC sets itself up (and not a multilateral arbitrator) to determine whether other countries are providing sufficient market access to its products and refers this access not just to textiles and clothing, but to all markets in other countries.

In this, and in other negotiations that developing countries (and Latin American ones in particular) make they must emphasise the major change they have carried out in recent years in opening their own economies to trade and the major effort made to promote export-led growth; such efforts can only bear full fruits if developed countries' markets maintain or increase their openness. Furthermore, developing countries must point to the fact that the institutional changes resulting from the SEM and greater Europe, as well as the growth of non-tariff barriers (particularly in the EEC) are posing new forms of protectionist risk to them; they should request that these trends are compensated for or abolished. While this does not occur, any EEC demand for reciprocity does not seem at all justified.[13]

Developing countries, governments and entrepreneurs (as well as regional organisations that represent them) must realise that to become a successful open market economy requires not only to open up their own economy, but equally important also to simultaneously bargain effectively and firmly (at all appropriate fora, as well as bilaterally) for the developed economies to keep their markets open to their exports. In this respect, interesting lessons can be learnt from the Asian countries, who not only have opened up their economies (albeit often in a selective way), but also have been very successful in the key complementary measures of bargaining for maintaining market access for their exports and in circumventing harriers which they could not bargain away. Indeed, as we will discuss later, the use of anti-dumping by developing countries, - apparently potentially a protectionist device - can paradoxically be a valuable last resort bargaining chip for developing countries to use, so as to help keep the developed markets open, for their exports. It has been suggested[14] in this context, that, for instance, Australia, the country with the highest level of protection amongst OECD countries, has retained higher tariff levels than desired in order to use it as a bargaining lever to open access to agricultural markets. One concrete way in which the approach to 1992 has intensified de facto protectionism by the European Community is via the increased use of anti-dumping actions, which the Community is able to take without going through national legislation or attracting much public attention. It is important that developing countries are aware of the range of actions they can take to fight such limitations on their market access, and undertake those best suited for them.

The first response to actions such as anti-dumping is to support strongly the discussion and clarification of this issue at a general level in the GATT, further strengthening the group led by Hong Kong. In aspects such as anti-dumping and safeguards more generally, though developing countries have been very active, they still have restricted themselves mainly to general statements; as Jara, op. cit., stresses they need to negotiate in greater detail, and with more precision the complex technical issues involved. Great negotiating skill and expertise is required, especially due to strong resistance by the EC and US to make formal commitments in this area. Useful lessons could be learned from the Cairns group experience.[15] More generally, on this and other issues of market access, developing countries should seek active support from international institutions (such as GATT and the World Bank) which encourage free trade; in particular, institutions like the World Bank - which have done so much to encourage developing countries to open their economies unilaterally, - should be equally active in helping the same developing countries have access to free markets. The GATT, which has begun producing valuable appraisals on trade policies via its Trade Policy Review Mechanism, should use these reports actively as a lever for putting pressure on developed countries to remove protection.

A second possible response is to use publicity and seek public opinion support (for example, by mobilising European NGOs) to combat any specific limitation to market access. Bangladesh successfully used such lobbying tactics a couple of years ago to stop a limitation to its UK market access.[16] Effective lobbying can either focus on how protection could damage the exporting country (or particular groups - e.g. the poor - within it) and/or can target consumer interests (and its organisations) by showing how protection could harm EEC consumers, via higher prices. Lobbying of this kind requires having professional lobbyists based in Brussels and Geneva, as well as making more active use of Embassy staff for these and related purposes. Important lessons can be learnt in the trade field from Japanese and ASEAN lobbying experiences; the use of lobbying as a means of achieving policy objectives is also well developed in the US, where former senior policy-makers (with good access to politicians) are hired for such purposes.

A third possibility implies actions using parallel issues (via either persuasion or threat) of roughly an equivalent magnitude. The type of counter-pressure actions that can be undertaken are: threat to ban imports of an EEC influential company, (which will then lobby on the LDCs behalf for market access with the Commission, so as to ensure its own market access), the threat to limit more generally (or to buy last) the products from the EEC, and the use of the threat of anti-dumping action by the developing country.

Asian countries seem to have a successful record in this type of action. For example, Thailand is reported in the early 1980s to have been faced with the possibility of a restriction of its EEC quota for manioca, one of its important exports; it threatened to reduce immediately their imports by the same amount of the additional limitation that its exports would have faced. As a result of this threat, the EEC withdrew the quota reduction immediately. Similar tactics were used by Indonesia and Malaysia, to block restraints on their exports. It is reported that some countries, like Thailand, even use approval or renewal of key licenses for foreign investors in their countries to ask for concessions in exchange, which in some cases implies requests to lobby on behalf of the country in trade matters.[17]

Finally, developing countries can also use anti-dumping actions, themselves, partly to counteract genuine dumping, but even with the purpose of using this as a bargaining chip to avoid or achieve withdrawal of anti-dumping measures against them. South Korea has in April 1991 for the first time applied anti-dumping duties.

It is important to emphasise, either for potential anti-dumping actions by LDCs or to help combat such practices, that EEC anti-dumping actions are based on rather strange calculations; Davenport,[18] reports that 94 per cent of the cases against LDCs were investigated on the basis of "constructed prices", rather than estimating the cost of production, as is implied by the GATT rules. Furthermore, the onus of proof is on the exporter to demonstrate that the injury was caused by other factors. This procedure makes anti-dumping easy to prove.

Naturally cases for anti-dumping would have to be carefully picked by LDCs particularly to make the threat credible and also to avoid significant loss of relatively cheap trade. More broadly, the anti-dumping instruments would have to be used in a selective, clearly targeted way, so as to avoid any risk of it generating an undesirable confrontation with powerful trading partners.

Another line of action which LDCs can take to face anti-dumping or similar protectionist action is to fight the specific case in the GATT; this however could be very problematic, as the nature of the procedure can in some cases imply risk of bankruptcy for the exporting firm.

The final option is for the exporting firm to offer undertakings on prices and in volume of exports, in which case the European Commission - after consultation - can drop the action. The important point to be emphasised here is that this is only one of several different possible reactions, to be chosen only if it is the most convenient to the LDC exporter and/or country.

In these as well as in other issues relating to broader aspects of EEC trade policy, it is essential for developing countries to have timely, detailed and opportune information. It would seem advisable for LDCs (individually or in groups) to hire lawyers and other specialists, such as economists, who can analyse EEC directives as they are being prepared and as they go through the legal EEC procedures, to detect whether there are potential problematic effects for the LDC/LDCs. If such negative potential influence is detected, developing countries must lobby quickly, by bringing pressure to bear, to attempt to change the problematic clauses.

In this context, it is important to know well the process whereby EEC directives are approved. There are several steps. Firstly, the Commission proposes a directive to the Council of Ministers; the amended directives are presented to the European Parliament; once national Parliaments for ratification. Appeals can also be made to the European Court of Justice.

Besides bargaining for ensuring access to open markets, developing countries must act also at a more technical level to ensure that their products meet the harmonised standards being adopted as part of the 1992 programme. These harmonised technical standards, which create serious information problems for even the most advanced European suppliers, are particularly problematic for small countries, where the fixed informational costs are relatively higher as a proportion of actual or potential trade flows. So a first strategic effort must be to acquire relevant information about new standards; this can be done by developing countries at a national and/or regional level.

Davenport and Page, op. cit., report that the main sectors where harmonised technical standards can create problems for LDC exporters are plants and flowers (which will require "plant passports" and/or pre-export inspection), meat products and especially fish and fish products; as regards the latter, the Commission may establish a list of processing plants and factory vessels which are authorised to export to the Community. Satisfying the new rules may need considerable and timely investment in sewage or improving existing plants. Furthermore, it is important to use public relations so as to reassure European countries and relevant authorities of the quality of developing countries' products.

Parallel to the completion of the single market, European integration has acquired new momentum. Iberian enlargement of the EEC since the mid 1980s and, particularly, the completion of a Single Market by 1993 have given new dynamism to European integration. Most EFTA countries may, as early as 1995, have joined the EEC either together or separately. East European countries are likely to become integrated into the European sphere. The CIS (or parts of it) may also increasingly become integrated or linked to the rest of Europe.

This trend towards regionalism is not of course confined to Europe. The US-Canada Free Trade agreement signed in 1989 is designed to increase intra-North American trade, as well as to facilitate the free flow of capital and human resources across their border (for details, see Weston, op. cit.). Japan has developed strong trade and investment links with its South East Asian neighbours.

This growing generalised trend towards regionalism in the world economy could weaken the principle of multilateralism, if trade blocs worked against the multilateral trading system. As Jara, op. cit., emphasises, GATT rules (and especially Article XXIV governing formation of free trade zones and customs unions) can play an important role here. Developing countries should devote particular efforts to support those countries like Japan trying to make more precise and powerful the provision of Article XXIV, so as to ensure that trade blocs such as the EEC work to support, rather than weaken, the multilateral trading system. More generally, the issue of the role of regional blocs in the multilateral system requires more attention in international bargaining.

How can developing countries further increase their "bargaining power" in terms of market access or any other trade matter issue within this regionalised world economy?

In this respect two issues (besides efforts through the GATT) deserve special attention. Firstly, "grouping" on a regional basis or an issue-specific alliance among developing countries might have a better chance of increasing their bargaining power on trade policy issues than bilateral negotiation between an individual developing country and a powerful trading bloc such as the EEC. Secondly, regionalism or any issue specific alliance by developing countries should be used as a bargaining tactic for strengthening multilateral trade liberalisation rather than as a defensive or aggressive policy of block building and protectionism.

Regional agreements can take different forms. They can be arrangements amongst developing countries, regional agreements can be also among one or more developing country and two major industrialised countries.

The past record of regional co-operation and integration among developing countries is not encouraging. The situation is however, improving. The Andean Pact has not only agreed to implement a free trade zone by the end of 1995, but also intends to negotiate collectively with the US, in response to the Bush Initiative. Also significant is the recent organisation of Mercosur (see, for example, Weston, op. cit., in this volume).

The US has partly responded to European integration and regionalisation of South East Asia, the creation of a Western hemisphere trade bloc. Besides Mexico, a large number of Latin American countries agreed with the US on a framework of negotiation for trade liberalisation. Chile is expected to be second to Mexico in joining the North American free trade zone. Though these changes are positive for trade liberalisation, fears have been expressed that the complexity of the arrangements and the emphasis on regional and bilateral arrangements may weaken countries' commitments to - and support for - the GATT system.

A collective negotiation with the US by a group of Latin American countries might be preferable to bilateral negotiation, with respect to the terms and condition under which trade liberalisation between these countries and the US would be carried out; the costs and risks of individual Latin American countries bargaining alone with industrial countries (and trying to get preferential treatment to their neighbours) was well illustrated by the weakness of the Cartagena Consensus and its impact on debt negotiations.[19]

Latin American governments, especially within intra-Latin regional groupings, could potentially also bargain collectively with other regions (e.g. Europe) and within the multilateral trading system, and on occasions adopt more independent (from the US) positions, e.g favouring in some cases European positions. This would strengthen their bargaining position, both vis-a-vis the US and the EEC.

Latin American countries could also learn interesting lessons from the EEC experience, which they can apply to their own integration efforts, e.g. within the Initiative for the Americas context. An example of this is the possible need to develop parallel efforts and mechanisms to complement trade integration, such as the European

Regional Development Fund, European Social Cohesion Fund and others.[20]

Developing countries should aim at "open regionalism" rather than formation of a discriminatory free trade area like the EEC. The exact content and framework of "open regionalism" should be worked out carefully. Nevertheless, an example is provided by the Western Europe regionalism in the 1950s and 1960s, which was in the spirit of "open regionalism", by being a complement to a multilateral trading system rather than a substitute.

Alongside improving their negotiating power in trade policy matters developing countries should also look for more direct access to the EEC market through foreign direct investment. Indeed, several developing countries, which have a relatively developed technological base and industrial infrastructure, have already become investors in the EEC market. Brazil, for instance, is one of the largest investors in the Portuguese economy, with joint ventures. South Korean electronic companies have established plants in the EEC in order to better serve the market. Taiwanese electronic and garment producers have set up plants in the European Community. Hong Kong enterprises have also acquired plants in the EEC. The Government of Singapore has shown strong support for companies to invest abroad particularly through joint ventures. An area where potentially investment in Europe (e.g. via joint ventures) could be particularly productive in terms of market access is in wholesale trading enterprises.

Last, but certainly not least, developing countries need to make major efforts to increase efficiency and improve competitiveness in their economies, so as to most effectively use the international market opportunities that are available to them.

It can be concluded that large changes in Europe and European integration pose both important opportunities and new problems for developing countries.

Strategies need to be designed which allow these countries to maximise use of new market opportunities and overcome problems of market access; collective actions by groups of developing countries may be valuable to increase their bargaining power, especially in a world of increasing regionalism. The real nature of the GATT, in light of recent developments, both multilaterally and regionally, has to be fully understood; though developing countries need to continue their strong commitment to strengthen the multilateral trading system, they may also need to diversify their bargaining strategy to emphasise regional and bilateral bargaining, even if they rightly believe this to be second best.

When the debt crises exploded in the early 1980s, indebted developing country governments made incredible efforts by servicing their debts to safeguard the stability of the international banking system, even to the extent of sacrificing output and growth of their economies. Thus they took more than their share of responsibility in managing this international issue. In the nineties again LDC governments are amongst the strongest defenders of the interest of the international system, this time on the trading front. Even more than in the case of debt, the burden of maintaining an open multilateral trading system cannot however be carried mainly by developing countries; to be successful, this requires critically the support of the major industrial economies. Should the major industrial countries - especially multilaterally, through the Uruguay Round but also in the context of important regional groupings like the EEC - fail to provide increasingly free access to their markets, developing countries may be reluctantly forced to re-think their enthusiasm for their own trade liberalisation. This would be very unfortunate.

1 This section draws heavily on "European Integration and its Implications for LDCs" by P. Alizadeh and S. Griffith-Jones, Pensamiento Iberoamericano Dic. 1991, and especially on Chapter III, Part A, of UNCTAD Trade and Development Report 1990.

2 I thank Chris Stevens for this point.

3 A. Jara "Bargaining Strategies of Developing Countries in the Uruguay Round", in this volume.

4 See Michael Davenport with Sheila Page, Europe: 1992 and the Developing Countries (London: Overseas Development Institute, 1991), pp. 1-5.

5 Michael Davenport with Sheila Page, op. cit., p. 21.

6 For more detailed estimates, by country and by sector, see UNCTAD TDR 1991 and Alizadeh and Griffith-Jones, op. cit.

7 See UNCTAD Trade and Development Report 1991, pp. 64-65, Trade and Development Report 1990, pp. 80-85; and Trade and Development Report 1989, pp. 70-71.

8 For more detailed analysis, see Alizadeh, P. and Griffith-Jones, S. op. cit.

9 Source: UN Monthly Bulletin, several issues.

10 Presentation by B. Kadar, Minister of Foreign Trade, at EEC, Symposium of Reforms in Foreign Economic Relations of Eastern Europe and Soviet Union, Geneva, 29 August - 2 September 1990.

11 See, S. Griffith-Jones.

12 A. Weston "Trade Bargaining in the Canada and the US, Drifting Towards Regionalism", in this volume.

13 I thank Gary Hufbauer and Vicente Donoso for insightful suggestions on this point.

14 See, D. Tussie "Trade Bargaining; A Survey of the Issues and Framework for Research". Mimeo. Jan 1991. FLACSO, Buenos Aires.

15 See, D. Tussie "The Cairns Group", in this volume, for a very useful discussion.

16 Interview material.

17 Interview material.

18 M. Davenport "The Charybdis of Anti-Dumping: A new Form of EC Industrial Policy?" RIIA Discussion Paper 22, London. 1986

19 See, D. Tussie (1988) "The Coordination of Latin American Debtors: Is there a Logic Behind the Story?" in S. Griffith-Jones (ed.) Managing World Debt, Harvester Wheatsheaf. (This study was Phase I of the current project, which examined debt from a bargaining perspective).

20 For a concrete proposal along these lines, for the NAFTA see A. Fishlow "Prospects for NAFTA and the role of public investment" Chartered West LB Developing Country Investment Review. March 1992.