European Integration and its Implications for LDCs; some proposals for LDCs' strategic responses

by

STEPHANY GRIFFITH-JONES*

and

PARVIN ALIZADEH

This paper was prepared for the IDRC sponsored workshop in Geneva in September 1991

* We are very grateful to Mrs Judita Stouracova, Deputy Director of Research Institute for Foreign Economic Relations in Czechoslovakia for providing valuable statistics; we are also extremely grateful to Sheila Page, Chris Stevens and Michael Davenport for their valuable information and thoughtful suggestions to our queries. Last, but certainly not least, we wish to thank Manuel Agosin and Diana Tussie for stimulating comments; and Peter Wilks for his help with the computational work.

EUROPEAN INTEGRATION AND ITS IMPLICATIONS FOR LDCs; SOME PROPOSALS FOR LDCs' STRATEGIC RESPONSES

STEPHANY GRIFFITH-JONES

and

PARVIN ALIZADEH

Contents

INTRODUCTION

The development of an enlarged and integrated Europe, which is in the process of completion, is bound to have serious implications for Developing Countries. The EEC has been enlarged by its new southern member countries and a single market will be created by 1992. Simultaneously EEC and EFTA are moving closer to each other to ensure closer trade and investment interdependence. In parallel radical transformation of Eastern Europe may entail the gradual re-integration of these economies into the mainstream of European Economic Development. There is also uncertainty over EEC external trade policy in post-1992.

This paper addresses these issues with the purpose of providing concrete policy proposals for developing countries. The structure of this paper is as follows:

Part 1 is concerned with the trade creation, trade diversion effects of the single market for various groupings of developing countries.

The net trade effect of the single market to a large extent depends on product composition of developing countries' exports to the EEC market. Net trade effect is likely to be of much greater magnitude in high-tech industries and various machinery than in traditional labour intensive manufactures like textile, clothing, leather and similar products.

If the single market-induced growth of the Community is about 5 percent then developing countries would benefit from trade creation although there would be substantial variations among different groupings of developing countries. In this context newly industrialised countries (NICs) of South and South East Asia as well as oil producing developing countries are the two main beneficiary groups of the trade expansionary effect of the single market.

The Asian NICs not only account for the major share of Developing Countries' manufactured exports to the EEC but also have a highly diversified export mix. In addition to the exports of traditional labour intensive manufactures, this group is also involved in exports of high-tech, high income elastic products to the EEC market. Among

Developing Countries exporters of primary products oil exporters would be the main beneficiary of the single market - induced trade expansion. High income elasticity of demand for oil as well as high-tech products implies that even under a pessimistic growth scenario of considerably below 5 percent exporters of these products are far less adversely affected than those specialised in low income elastic products.

Part 2 is concerned with the Iberian enlargement of the EEC which may lead to intense competition between exports of Developing countries and those of the new members. The access of Spain and Portugal to the market of the EEC will improve considerably once the two countries are fully integrated into the community in the near future. Iberian enlargement will adversely affect two groups of developing countries; Mediterranean developing countries and Latin American countries. The agricultural produce and to a lesser degree manufactured goods of the new members competes in the EEC market with several products from the Mediterranean developing countries. Also termination of the special Trade Treaty between the new members and Latin American countries has already affected the latter's export.

Another dimension of European integration that might affect developing countries is the acute possibility of closer integration between the EEC and EFTA. This issue will be discussed in Part 3. Among developing countries, Asian NICs would potentially suffer most from trade diversionary effect of this development although some Latin American and Mediterranean developing countries would be also affected.

Part 4 focuses on the EEC trade policy vis-a-vis developing countries. At the moment there is considerable uncertainty over EEC external trade policy in post-1992. In terms of historical evolution the EEC past record is not particularly encouraging in this respect. Nevertheless the choice of Trade Policy in post-1992 to a large extent depends on the relative success of the West European integration and in particular effective implementation of the single market programme which is central to West European integration. Should the completion of single market succeed as planned it is likely that the EEC will emerge as one of the most dynamic regions in

the world economy in the post-1992 era. A growth oriented dynamic Europe at least potentially is less susceptible to protectionist tendencies than a Europe which is burdened by high cost of adjustment and limited growth prospects.

Part 5 is concerned with the recent developments in East Europe and its implications for developing countries. Finally Part 6 provides proposals for strategic responses by developing countries which are entangled within a regionalised World Economy.

PART 1

COST-INDUCED TRADE DIVERSION AND INCOME-INDUCED TRADE CREATION EFFECT OF THE SINGLE MARKET

The completion of the single market has certain implications for developing countries in terms of trade and investment flows; the discussion in this part, however, is primarily concerned with the trade rather than investment effects of the single market project. It is shown that the cost and benefit of single market in terms of trade creation and trade diversion would vary considerably among various grouping of developing countries.

1.1 The Direct and Indirect Effects of the Completion of the Single Market

The direct impact of the single market upon the Third Countries depends on the balance of income - induced trade creation and cost-induced trade diversion. Trade diversion and trade creation in the context of this paper refer to the external trade effect of integration and to a large extent diverge from the classical trade theory definition.[1]

In the theory of customs unions, trade creation refers to a union - induced shift from the consumption of high cost domestic products in favour of lower cost products of another member of the customs union. More is traded than before because high-cost producers in the union are displaced by more efficient low-cost producers in the union. This can happen when a new customs union is formed and import duties among the members is reduced or when a prospective member with a different level of tariffs to that of the customs union joins the union. Trade diversion in the theory of customs union refers to a union-induced shift in the source of imports from lower-cost external sources to higher-cost member countries resulting from discrimination against non-member countries.

However in this study trade creation refers to the increase in extra-EEC imports stimulated by the growth of income or output in the EEC. Trade diversion refers to the replacement of imports from extra-EEC suppliers by EEC production regardless of whether that displacement

is due to the elimination of intra-EEC barriers (Trade diversion in the orthodox sense) or to other causes including cost reduction associated with the completion of a single market.

Trade creation and Trade diversion are direct effects of market integration and are distinguished from the indirect effects of capital flows, notably investment inflow to the integrated region. Economic integration may result in increased foreign direct investment to the integrated market for a variety of reasons; creation of an integrated large EEC market leads to greater economic efficiency through scale economies and rationalisation of investment decision. This in turn will increase the profitability of investment in the EEC market leading to diversion of potential foreign investment from developing countries into the EEC. Additionally, some firms "jump the tariff wall" or other actual or potential trade barriers to produce inside the EEC what they previously exported to it if actual or potential trade barriers discriminate against goods from Third - countries.

Hence the completion of single market may lead to foreign direct investment diversion from developing countries. This might have serious implications for developing countries in terms of resource transfer. However these indirect effects although they are of crucial importance are not easily quantifiable. Hence discussion in this part will focus on direct effects of integrations and their quantification. We shall first discuss the trade diversion and its implications for developing countries. Afterwards trade creation effects of the single market will be discussed. Finally the impact of these static direct effects will be discussed in relation to different groupings of developing countries.

1.2 Trade Diversion Effect of 1992

With the completion of single market the EEC producers would be able to utilise comparative advantage and economics of scale more fully should removal of border control and the remaining trade barriers among the member states end fragmentation of the euro-market. Improved competitiveness may result in replacement of imports from third Countries.[2]

The creation of an internal European market is a response on the part of the European Community to alter the declining competitive trend of EEC industries. The major objective of the formation of a single EEC market is to increase cost efficiency and competitiveness of EEC industries generally, and in particular vis-a-vis Japan, the United States and industrially more advanced developing countries.[3]

According to the commission's study of "the Economics of 1992" the increased efficiency arising from the competition of a single market will be concentrated in the manufacturing as well as service sectors rather than in agriculture.[4] Agriculture is assumed to be subject to continued prolongation of common Agricultural Policy (CAP) including provision of state subsidies and other protective measures well beyond 1992.

However the largest efficiency gains in the manufacturing sector are likely to accrue to those industries which face highly segmented markets owing to closed public procurement and/or different national technical standards. Notable examples are electrical goods, office machinery, motor vehicles, telecommunication, chemical and pharmaceuticals, and mechanical engineering.[5] With the completion of the single market, public procurement will open up to EEC wide competition. Public procurement has for long been subject to discriminatory practices by national governments which have systematically favoured domestic suppliers over foreign suppliers. Liberalisation of public procurement which account for a substantial proportion of economic activity in member states, will significantly increase competition on an EEC-wide basis. Furthermore national Technical regulations which are non-tariff barriers limiting market entry are expected to be removed among the member states by 1992. Cost reductions arising from the removal of border control, elimination of discriminatory public procurement policies and the removal of technical regulations among the EEC members are static effects of integration.

The second major source of cost reduction is market integration effects of scale economies and increased competition. These are dynamic effects, which are expected to materialise in the medium to long-term in contrast to the more immediate impact of static effects.

A single unified EEC market would allow full utilisation of scale economies in production and distribution as well as product development and R & D concerning the above industries which are susceptible to scale economics.

In addition, enhanced competition with the Community will lead to improved efficiency within enterprises and the elimination of X - inefficiencies associated with monopolistic or oligopolistic market structure.

Efficiency gains would be limited in more Traditional industries such as textile - clothing, leather, footwear. These industries have not been subject to discriminatory public procurement policies or national technical regulations and also they have already undergone profound structural changes including a substantial degree of market integration at EEC level. Moreover, production economies of scale are not particularly important in these industries. These industries will to some extent benefit from scale economies in marketing and distribution on an EEC wide basis in a near future.[6] Efficiency gains would be also limited in EEC iron and steel industry in which a significant degree of structural adjustment has already taken place including substantial "trimming" off and cutting of excess capacity, even though there is still scope for further reduction of excess capacity.

1.2.1 Trade Diversion Affecting Developing Countries

There is strong indication that extra-EEC imports of manufactured from developed market economies will be far more subject to trade diversion in post-1992 era than those from developing countries simply because extra-EEC imports of manufactures is mainly from the former rather than the latter countries.

The exports of many developing countries to the EEC is still dominated by food, primary products, and fuel which accounted together for more that 50 per cent of the total imports of EEC from developing countries in 1988. This is reflected in Table 1 which shows the composition of EEC imports from developing countries. A more comprehensive picture is provided in Table 2 which shows the composition of extra-EEC imports in 1988 by origin. Developing

countries in 1988 accounted for around 60 per cent of the total extra-EEC imports of food (including beverages and tobacco) as well as that of energy. Their share in total extra-EEC imports of manufactured goods is still limited not exceeding 22.8 per cent of extra-EEC imports of manufactures.

However most of the extra-EEC imports of clothing, footwear, travel goods, leather and to a lesser extent textiles originates from developing countries. Developing Countries also account for a significant portion of extra-EEC imports of wood and cork manufacture as well as non-metallic minerals (Table 2). They are also responsible for 15 to 20 per cent of the extra-import of machinery, iron and steel and metal manufactures. (Table 2).

It is likely that extra-EEC imports of food, raw materials and fuel would not, by and large, be subject to trade diversion resulting from the 1992 project. Trade in these commodities to a large extent is shaped by natural endowment and climatic condition rather that other considerations. As is shown in Table 3, which shows relative importance of intra- and extra-EEC trade, the EEC is a net importer of food, raw materials and fuel and a net exporter of manufactured goods to the world market. This in turn reflects, broadly speaking, a well established pattern of specialisation and competitive advantage in manufactures rather than non-manufactures by EEC.

According to the Commission estimate the implementation of single market project would reduce agricultural imports from developing countries by only 1.4% in contrast to around 10% or more as in the case of manufactures.[7]

At the sectoral level, however, as was pointed out earlier on, labour intensive traditional manufactures are far less subject to efficiency gains of the single market project than high-tech industries, chemicals, motor vehicle and manufacture of metal. This to some extent is reflected in Table 4 which shows Commission estimates on trade diversionary effects of the 1992 project at sector level; for clothing - textile and leather extra-EEC imports is expected to decline by 7.1 and 7.0 per cent respectively in contrast to 16 per cent reduction in extra - imports of metal manufacture, 12.9 per cent in chemicals and 11.8 per cent in office machinery. It should be

noted that the data on trade diversion primarily reflects the static effect of market integration, underestimating the overall extent of trade diversion particularly for high-tech and machinery which are susceptible to dynamic effects of integration.

However traditional manufactured exports of developing countries are not particularly susceptible to trade diversionary effect of the single market.

1.3 Trade Creation Effects of 1992

The increased efficiency in the allocation of resources within the EEC, induced by the completion of single market, will increase the real income and growth prospect of the Community. This in turn will tend to increase imports from the rest of the world. The extent of trade creation for developing countries is positively related to growth prospects of the EEC and import elasticity of developing countries' exports.

The Commission study indicates that the completion of the single market will boost EEC GDP by 4.5 to 7 per cent, depending on accompanying macro-economic policies by the member states. This is a once-and-for-all single market induced growth rate.

Of course single market-induced growth rate might diverge from the Commission estimates. The Community might grow at a faster rate than this, both as a result of recent developments in Germany if German unification should prove to have a strong effect on demand as well as "trickle down effects" of increased foreign direct investment in the Community in recent years. Baldwin (1989) has raised the possibility of a much higher growth rate for the Community resulting from the materialisation of dynamic effect of the 1992 project.[8] Conversely trade creation can be dampened if the adjustment cost to the Community arising from the completion of the single market is more substantial than estimated by the Commission.

In order to quantify the extent of trade creation we have estimated the EEC import elasticity of demand for manufactures from developing countries over the period 1979-1988 (Table 4). The choice of the period was dictated by the availability of data although longer time

series data is desirable. The data is based on regressing the EEC import demand function using ordinary least separate method. These data are the most disaggregate estimates of EEC import elasticity of demand for manufactures from developing countries at SITC one digit and 'SITC' two digit level. Other studies have relied on either aggregate estimates or estimates of elasticities for developed rather than developing countries.[9]

According to our estimates EEC income elasticity of imports from developing countries is 3.5 indicating that if EEC income rise by 1 per cent this will lead to 3.5 per cent increase in manufactured imports from developing countries. However there are substantial variations in income elasticity of imports for various manufactures; very high for office and data processing industry, electrical machinery, paper and paper board; 13.5, 7.7 and 7.4 respectively; low for clothing - textile, manufacture of metal and leather: 2.5 and 3.4 and 3.7; modest for motor vehicles, rubber, chemical and furniture; 5.7, 5.9, 4.6, 4.9.

Three growth scenarios of 2.5 per cent, 5 per cent and 10 per cent have been chosen to reflect diverging views on single market-induced growth of the EEC.

Should the Community grow by 5 per cent (which is roughly in the middle of the range estimated from the Commission study of 1992) with import elasticity of 3.5, net trade creation (which is the balance of trade creation and diversion) would dominate for manufactured exports of developing countries (Table 4). This would be 7.5 per cent. Net trade creation will be highest for office and data processing industry followed by paper and paper board, electrical machinery, motor vehicles and rubber. However metal manufacture and clothing - textile would be subject to only 1 per cent and 5.4 per cent net trade creation respectively.

The data on Net Trade creation should be viewed cautiously since they are an over-estimate and only partially reflect the impact of trade diversion. As was mentioned previously the Commission estimate of trade diversion is based on static effects of integration rather than the overall effects. Nevertheless for clothing - textile in which

developing countries are the major non-EEC supplier to the Community net trade creation is very limited.

Net trade creation would be substantial for developing countries if the Community grew at 10 per cent (Table 4). For textile - clothing, net trade creation will be 17.9 per cent under this optimistic growth scenario.

Conversely, if the Community grows by 2.5 per cent then an overall trade diversion of 1.3 per cent, would dominate for manufacturing industries. High-tech industries still would benefit from net trade creation while chemicals, textile - clothing and metal goods would be subject to net trade diversion.

Income elasticity of demand is also an important consideration so far as trade creation for primary products is concerned.

It is estimated that exporters of fuel could be the main beneficiary of trade creation for primary products. Under a 5 per cent growth scenario they are expected to capute 80 per cent of the potential gains due to high income elasticity of demand for fuel compared to most other primary products.[10]

It is plausible to assume that the choice of EEC trade policy in the post-1992 era depends to a large extent on growth prospects of the Community. The possibility of Europe turning fortress is far more pronounced with pessimistic growth scenario than with an optimistic one.

1.4 Net Trade Effect of 1992 Upon Various Groupings of Developing Countries

Among developing countries, Asia's newly industrialised countries and to a lesser degree Mediterranean developing countries are the main exporters of manufactured goods to the EEC (Table 2 and 5). Exports of other developing countries to the EEC mainly consist of non-manufactures.

1.4.1 1992 and Asian Newly Industrialised Countries

Four East Asian countries including South Korea, Taiwan Province of China, Hong Kong and Singapore accounted for 55.7 per cent of the total developing countries' manufactured exports to the EEC in 1988. This is reflected in Table 5 which shows export share of various groupings of developing countries in the EEC market. These countries together with ASIAN four (i.e. Indonesia, Malaysia, Philippines and Thailand) were responsible for nearly 65 per cent of manufactured exports to the EEC from developing countries. Trade diversionary effects of 1992 will be more concentrated on these countries than on other groupings of developing countries. This is particularly so in the case of the four East Asian countries of South Korea, Taiwan Province of China, Hong Kong and Singapore. These countries are highly diversified exporters of manufactures to the EEC market supplying a wide range of commodities ranging from clothing and footwear to high technology manufactures. (Table 2).

They are responsible for the major share of developing countries traditional exports, such as clothing, footwear, wood and cork manufacture to the EEC market. They also account for almost all developing countries exports of electrical machinery, office and data processing industry, telecommunication and recording equipment to the EEC market.

The trade diversionary effects of 1992, will be relatively modest so far as traditional manufactured exports of these countries such as textile, clothing and footwear are concerned.

These are industries in which a considerable degree of market integration and efficiency improvement have already taken place within the Community. In contrast extra-EEC imports of high tech-manufactures from these countries will be highly susceptible to trade diversionary effect of 1992 although as was mentioned earlier on, this is not fully reflected in Table 4.

This group, however, will be also the main beneficiary of trade creation effect arising from the growth of income within the enlarged Community. In the context of developing countries the East Asian four are almost the sole exporters of office and data processing

industry and electrical machinery to the Community, sectors with the highest potential for net trade expansion in post-1992 (Table 2 and 4). Net trade creation effects for these two sectors even under a pessimistic growth scenario of 2.5 per cent, would be 24.9 per cent and 7.4 per cent, respectively, in contrast to insignificant or negative trade effect concerning the majority of developing countries manufacturing exports.

Furthermore, and more importantly, this group of developing countries, because of its highly diversified and competitive industrial structure, is potentially capable of expanding or contracting output of different manufacturing sector according to changing patterns of demand. For instance, it seems likely that the East Asian Four would be able to adjust their export mix to the EEC by expanding exports of those manufactures with high income elasticity of demand and contract those with opposite characteristic in case Community growth is slow in post-1992.

Thus this group is, at least potentially, less vulnerable than other groupings of developing countries which have a limited range of manufactured exports and consequently lack the flexibility to adjust their exports to changing demand conditions in the international economy.

1.4.2 Mediterranean Developing Countries

This group includes the second major developing countries exporters of manufactures to the EEC market accounting for 25.8 per cent of total developing countries manufactured exports to EEC (Table 5).

Their manufactured exports to the EEC is concentrated on clothing and textiles. They accounted in 1988 for 25.4 per cent and 12 per cent of total extra-EEC imports of clothing and textile (Table 2). Other manufactured exports by these countries includes footwear furniture, iron and steel, leather, wood cork manufacture and vehicles although their share in total extra-EEC imports of these manufactures is limited.

Should the Community grow at 5 per cent this group would experience a satisfactory net trade creation for its manufactured exports.

Mediterranean developing countries on the whole, however, would experience net trade diversion in clothing-textile, which constitutes their major manufactures' exports to the EEC, under a pessimistic growth scenario of 2.5 per cent. This group of developing countries which has high degree of concentration in clothing - textile, and limited range of manufactured exports, is highly vulnerable to demand fluctuations in export markets. Morocco and Tunisia are highly dependent on export of clothing - textile and will be adversely affected if faced with the reduction of demand.

Nevertheless, this group is also involved in exports of non-manufactures (i.e. food, raw material and fuel) to the EEC which would rise as income rises within the Community. The main beneficiaries of trade creation in non-manufactures are exporters of fuel, because of high income elasticity of demand for fuel relative to most other raw materials and primary products. In this respect, Algeria would be the main single beneficiary so far as this group is concerned.

1.4.3 1992 and Other Groupings of Developing Countries

Exports of Latin America as well as African Caribbean and Pacific (ACP) countries to the EEC market are primarily concentrated in food and raw materials while that of west Asia mainly consists of mineral fuels (Table 5). Non manufactures exports, as was mentioned earlier on, would not be on the whole, subject to trade diversionary effect of single market. In this respect these groups are relatively immune from the potential of trade diversion of 1992. This group would benefit from trade creation for their primary product exports, particularly as regards fuel. West Asian countries, which include most OPEC members, would be the main beneficiary group.

Manufactured exports by Latin American, ACP and West Asia to EEC market is limited ranging from 1 per cent of the extra-EEC imports of manufactures from the rest of the world as in the case of ACP to 2.8 per cent as in the case of Latin America (Table 9).

However, trade effect of 1992 in the case of these groups will be mainly born by individual countries and in certain branches of manufacturing industries. For instance among ACP countries Mauritius

is the main exporter of clothing to the EEC market. Among Latin American countries Brazil is the main exporter of iron and steel and road vehicles although Mexico and Argentina, and to a lesser degree Venezuela, are also involved in exports of manufactures to EEC.

Brazil and Mexico would benefit from high level of net trade creation for their motor vehicle exports to the EEC. Exports of footwear, and leather by Latin American group would not be subject to high level of trade creation because of relatively low income elasticity of demand for such exports.

Among ACP countries, exports of clothing by Mauritius is vulnerable to net trade diversion, should the demand in the Community for such export grow slowly, around 2.5 per cent.

PART 2

IMPACT OF THE SOUTHWARD ENLARGEMENT OF THE EEC

In this part we shall discuss that the Iberian enlargement of the EEC has implications for Mediterranean developing countries as well as Latin American ones.

The access of Spain and Portugal to the market of the EEC will improve considerably once the two countries are fully integrated into the Community. At present, they are still in a transitional period, which extends for industrial products up to January 1992 and for agricultural products up to January 1996.

Spain is the larger and more industrialised of the two, with significant supply capabilities in both industry and agriculture. Spain's agricultural output is quite substantial, amounting to about 17 per cent of the Community total.[11] The agricultural produce of both Spain and Portugal competes in the EEC market with a broad range of products from the Mediterranean developing countries such as fresh and processed vegetable and fruit (particularity citrus fruit), olive oil, fish products and wine. For Morocco, Tunisia, Israel and Cyprus, these products account for some 70 to 95 per cent of their total agricultural exports to the EEC.

Prior to the most recent enlargement of the EEC, the Mediterranean developing countries enjoyed more privileged access to the Community market than the Iberian countries . When the process of enlargement of the Community is completed, the Iberian countries will be able to compete with the Mediterranean countries on an equal footing, and this may affect adversely the exports of the latter group of countries to the EEC.

Furthermore, the new members and many developing countries are direct competitors in the market of the EEC with regard to a number of manufactured products such as textiles and clothing, footwear, leather, pulp and paper, wood products, cork, iron and steel and machinery. Free access by Spain and Portugal to the market of the Community will substantially increase the competition for suppliers from developing economies. The Iberian enlargement of the Community could also affect Latin American exports of agricultural products to Spain and Portugal. Both countries had special trade agreements with countries in Latin America, offering import duties below the common external tariff of the Community for a number of commodities (including coffee, millet, maize, soya, unprocessed tobacco and beef). Spain and Portugal, which have terminated their preferential treatment for imports from Latin America, are likely to import agricultural products such as cereals, livestock and dairy products increasingly from other member countries of the EEC. The exports of several countries in Latin America, including Argentina, Uruguay, Surinam and Brazil, will be adversely affected.

There should be also trade creation for developing countries exports who will be offered generalised system of preference and Mediterranean preference agreements by the new acceding members as new members harmonise their external trade policy with that of the Community. Furthermore the new members will realign their domestic export tariff to that the common external tariff of the EEC which implies a lower external tariff for manufactured goods. Yet trade diversion, at least, for agricultural goods might dominate due to not only the significant export overlap between Mediterranean developing countries and the new members but also because of the implementation of Common Agricultural Policy by the new members.

Moreover there is a certain danger that the absorption by the Community of labour-intensive manufactures or agricultural products from the new member countries rather than from developing countries may be viewed as one way of reducing the social cost of integration, and the southward enlargement of the EEC could therefore increase protectionist pressures within the Community. The developing countries have generally a competitive advantage on account of lower labour cost and this advantage may become more pronounced as and when the labour cost in the new member countries rise as a consequence of a greater convergence of wages in an integrated Community market. Protectionist tendencies to restrict the access of developing countries into the market of EEC may tend to intensify should the single market induced-growth of EEC be insignificant.

PART 3

FORMATION OF A EUROPEAN ECONOMIC AREA AND ITS IMPLICATIONS FOR DEVELOPING COUNTRIES EXPORTS.

3.1 Problems and Prospects of European Economic Area (EEA)

The relationship between the EEC and EFTA is a complicated issue. We shall first explore this relationship which is becoming increasingly intense in the light of the completion of the single market. Later we shall analyse the implication of a closer EEC-EFTA interdependent for exports of developing countries.

Trade relations between EFTA and EEC in the wake of 1992 have acquired great importance although not without difficulty as EFTA countries are concerned to strengthen their trade and economic interdependence with the EEC,[12] without being drawn into an unequal relationship with their strong partner. At present the EEC and EFTA together constitute a free trade area in manufactured goods. The free trade agreements concluded between the EFTA countries and the EEC in 1973 reduced tariff barriers and abolished most quantitative restrictions on trade in manufactured goods between the two parties. The EEC and EFTA are highly dependent on trade with each other although this dependency is stronger on the side of the EFTA. About

60% of EFTA's total trade (i.e. extra-EFTA and intra-EFTA) is with the EEC and intra-EFTA trade is relatively insignificant while intra-EEC trade accounts for more than 50% of the total EEC trade and EFTA's share in total EEC trade does not exceed 12 to 15 percent. (Table 6).

EFTA countries are keen to participate in the completion of single market in order to avoid trade and investment diversion from EFTA. This concern over the possibility of trade and investment diversion away from EFTA and towards the EEC is elaborated by Professor Paul Krugman in an influential article commissioned for EFTA.[13] The crux of his argument is that increased integration within the EEC, as a result of the measures taken to complete the internal market, will lead to increased intra-EEC trade, reducing the demand for EFTA goods. EFTA will have to make its goods relatively cheaper in order to compensate for this decline in demand. Thus, EFTA's terms of trade will have to deteriorate. Secondly, and more importantly, Krugman argues that, a reduction in intra-EEC barriers in the context of economies of scale will make location of manufacturing production in EFTA less attractive. This is because, in the presence of economies of scale, goods tend to be produced in the country or region that offers the largest market. EFTA will have to compete with the market-size advantage of the EEC by offering lower production costs. This will require a real depreciation that worsens EFTA terms of trade; thus, in the absence of EFTA participation in the completion of internal market, EFTA would lose out as a result of the EEC closer integration.

Another area of EFTA concern is about Community commercial policy after 1992 and whether the Community will become a trade fortress.

The response of EFTA countries has been to attempt to avoid this outcome, by developing the concept of a European Economic Area (EEA) in close collaboration with the EEC to provide a forum for more extensive future co-operation between the two areas. The EEA which the EEC and EFTA are trying to negotiate into existence would be comprised of all 12 members of the Community as well as all EFTA members.

The precise meaning and content of EEA is still not clearly defined. Nevertheless, in the context of EEA's guidelines, the EEC and EFTA have been for quite sometime in negotiations for a substantial extension of current EFTA-EEC free trade agreements to cover measures other than tariffs and quotas that may limit trade in industrial goods. These include public procurement policies, use of anti-dumping measures, technical barriers to trade and various administrative procedures.

The liberation of public procurement on an EEA rather than EEC basis will allow a number of EFTA companies that are competitive on an Europe-wide basis to increase their sales in the European market. The single market represents for competitive EFTA firms the possibility of additional sales that may by far exceed their domestic sales. This in turn implies that the cost of non-participation in the internal market is quite high for EFTA companies. Of course EFTA public and private companies would become subject to EEC rules and regulation in a number a number of areas including in the area of subsidies and anti-competitive practices. Government aid to companies within EFTA would need to be scrutinised just as if it were within the EEC. Also companies operating in EFTA countries would have to accept the EEC competition rules which is aimed at stopping restrictive business practices. The removal of technical barriers to trade between EFTA and EEC would enhance trade between the two parties although a considerable degree of progress has already taken place in this area. Free trade in industrial goods would also be complemented by free trade in services as well as free movement of capital and labour. EFTA would preserve its autonomy in external trade Policy, agriculture and indirect taxation.

However it is becoming increasingly evident that the creation of a EEA would involve a considerable loss of autonomy for the EFTA countries without providing them with the full benefit of joining the EEC. What the EEC offer to EFTA is that its member can share at a price some of the benefits of the Community in the post-1992 single market. EEA is half way between a common market and a free trade area, and is "problematic" like most half way measures.

Hence not surprisingly most EFTA Countries are increasingly doubtful about the viability of a EEA on a long term basis. They now treat this as a staging post on the way to Community membership, no longer a viable alternative to joining. One possibility is collective absorption of EFTA countries into the EEC through their full membership of the Community. The possibility of becoming a member of the EEC is, on the other hand, not ruled out for individual EFTA countries. One EFTA member, Austria, has already applied for membership of the EEC although there is no sign of a quick EEC response to the application, at least not prior to the completion of the internal market.

In either case, there will be a further concentration of intra-European trade and investment. Furthermore, this gradual formation of European economic union, encompassing most European countries is likely to attract growing proportions of foreign direct investment into Europe, diverting potential or actual foreign direct investment from non-European countries.

3.2 Potential Areas of Trade Diversion

A closer trade interdependence between EEC and EFTA would be at the cost of non EEA countries. Any likely trade diversion from Third World countries would be primarily in the area of manufactured goods rather than in agriculture, at least for the near future. At present, free trade agreements between EFTA and EEC do not cover agricultural products. Furthermore, the guidelines of EEA at present preserve the autonomy of EFTA countries in agriculture. Harmonisation of agricultural policies between EFTA and EEC is not on the agenda at present, although in the case of full membership of EFTA into the Community this would change. Agricultural produce of EFTA countries is highly subsidised and protected. The level of state subsidies for agricultural products is considerably higher in EFTA countries than that prevailing in the EEC under the Common Agricultural Policy (CAP). The future of agricultural policies in both EEC and EFTA to a large extent depends on the outcome of the negotiation in the Uruguay Round.

However closer economic interdependence between EEC and EFTA whether via the EEA or through full membership of EFTA countries in the

European Community would enhance the efficiency of manufacturing industries within Western Europe for two reasons. Firstly, the application of competition rules and regulations on a EEA wide basis will tend to reduce inefficiencies, increasing the competitive advantage of these two groups of countries vis-a-vis extra-EEA suppliers. Secondly, and more importantly, the liberation of public procurement combined with the removal of technical barriers to trade on an EEA-wide basis will further accentuate efficiency gains.

At sectoral level efficiency gains would be concentrated in chemical and motor vehicles, and other transport equipment, electrical machinery, agriculture and industrial machinery, office machinery, telecommunication equipment and metal manufacture. Liberalisation of public procurement and removal of technical standards between the EEC and EFTA would improve efficiency and competitiveness of these industries. Improved competitiveness of these industries would tend to increase intra-EEA trade, reducing extra-EEA imports of manufactures.

Non-EEA developed market economy countries would be the main target of trade diversion arising from the realisation of EEA. These countries are the main exporters of various machinery, chemicals, and metal manufactures to EEC and EFTA markets (see for instance Table 2). Nevertheless, at least some of the burden of trade diversion would be borne by developing countries.

Increased trade interdependence between EFTA and EEC would affect developing countries in two respects: (a) the substitution of developing countries' exports by those of EEC in EFTA market; and (b) the substitution of developing countries' exports by those of EFTA in the EEC market. The latter implication, in terms of trade diversionary effects is of far more crucial importance than the former. This is because of the significant difference in market size between EFTA and the EEC. The EEC with a population of 326 million and high per capita income is the world's largest trading block, while EFTA despite its relatively higher per capita income than EEC, is comprised of a group of small countries with an overall population of only 32 million.

The relative market size difference between the two groups is well reflected in Table 6. Total extra- and intra-EEC imports in 1988 amounted to US$ 1070 billion, of which 12.5 per cent was the share of developing countries. This means that developing countries' exports to the EEC was US$ 133.8 billion. However, the overall extra - and intra-EFTA imports in 1988 was only 184.5 billion of which developing countries accounted for 9.4 per cent, which is equivalent to US$ 17.3 billion. In other words, EEC has a much larger market for developing countries' exports than that of EFTA. The value of developing countries' exports directed at EEC in 1988 was 7.7 times greater than directed at EFTA market (calculated from Table 6).

Given the relative importance of EEC market for developing countries, the remaining discussion in this part will focus on the implication of the increased EFTA exports to the EEC for developing countries, should the EEA materialise or most EFTA Countries join the EEC.

3.3 Increased EFTA Exports to the EEC: Implications for Developing Countries

The extent to which increased EFTA exports to the EEC will displace those of developing countries will depend on the elasticity of substitution between developing countries' exports and those of EFTA, particularly in the case of products which would be subject to efficiency gains of EEC, as well as the relative share of developing countries, EFTA and other suppliers in extra-EEC import of these products.

Table 7 shows the composition of EEC imports from EFTA. About 77 per cent of EEC imports from EFTA consists of manufactures and the rest consists of non-manufactures.

As was mentioned earlier on, EFTA's agricultural exports to EEC would not necessarily expand since trade agreements between the two parties at present do not cover the agricultural goods and this is not expected to change in the near future.

As regards to manufactures it appears that the possibility of overlap between exports of EFTA and those of developing countries in EEC market is present in several product groups, including iron and

steel, manufactures of metal, electrical machinery, non-metallic minerals, furniture, wood and cork, rubber, and textiles (Table 2). However not all those industries would be affected by the formation of EEA or the accession of the EFTA into the EEC.

For instance although for both textiles and furniture EFTA and developing countries are major exporters to the EEC Market, nevertheless, neither of these industries are expected to be affected in any significant way by the realisation of EEA (Table 2). These industries have already undergone substantial structural changes in advanced industrialised countries and it is doubtful that closer ties between the EEC and EFTA would lead to a substantial increase in EFTA export of textiles or furniture to the EEC.

Similarly the extent of trade diversion affecting exports of wood and cork and rubber to EEC by developing countries would be insignificant, should closer integration between EEC and EFTA materialise. Present trade relations between EEC and EFTA in regard to these manufactures are quite liberal. These industries are presently operating in a competitive environment in Europe since they are not subject to restrictive public procurement policies in EEC or EFTA. These industries are also not particularly subject to technical barriers to trade between EEC and EFTA.

However, the extent of overlap between exports of EFTA and those developing countries is particularly pronounced in regard to iron and steel and manufactures of metal. EFTA is a major supplier of these products to the EEC market accounting respectively for 52.9 per cent and 41.5 per cent for the total extra-EEC supply of these products in the EEC market. Developing countries are also an important extra EEC supplier of these commodities to the EEC market although not to the same extent as EFTA. (Table 2)

Iron and steel and metal products are also among industries subject to EEA guidelines, notably in terms of competition rules which are expected to boost efficiency and cost competitiveness of these industries. There is still room for substantive structural change and resulting efficiency gains in these sectors through further reduction in production capacity. Increased EFTA exports of these commodities to the EEC can affect the market share of developing

countries to the Community, although other exporters of similar commodities to the EEC market (United States, Japan, etc) will be also affected.

Another area of export overlap between EFTA and developing countries is in certain machinery, including electrical machinery and telecommunication equipment. At present, United States and Japan are the main suppliers of these products to the Community and would be the main subject of trade diversion should EFTA increase its share of the EEC market. However, the burden of trade diversion will be also shared by developing countries.

The intensity of trade diversion arising from the increased exports of EFTA to the EEC would differ for various groupings of developing countries, depending on their export composition and pattern of specialisation.

3.3.1 The Impact of Increased EFTA Export to the EEC on Asian Newly Industrialised Countries

Among developing countries eight countries of South and East Asia, particularly the East-Asian Four (South Korea, Taiwan Province of China, Hong Kong and Singapore) could suffer most from trade diversionary effects of the closer integration between the EEC and EFTA. The most important area of overlap between the exports of EFTA and those of Asian newly industrialised countries are in manufacture of metal, telecommunication and recording equipment, and electrical machinery (Table 2). These industries are expected to benefit greatly should further West European integration materialise.

3.3.2 Other Groupings of Developing Countries

The impact of trade diversion arising from the increased integration between the EEC and EFTA, upon manufactures exports of other groupings of developing countries to EEC is relatively insignificant. Indeed as it is clear from Table 2 there is on the whole no major area of overlap between exports of EFTA and those of Latin America, West Asia and ACP to the EEC market. One exception is in the case of iron and steel, where EFTA countries are in competition with Latin American and Mediterranean developing countries. The growth of iron

and steel exports by Latin America and developing Mediterranean countries to the EEC could be slowed down should EFTA, which is a major supplier to the EEC market, further increase its market share.

PART 4

EEC TRADE POLICY VIS-A-VIS DEVELOPING COUNTRIES

The EEC has a highly complicated multi-tier system of trade preferences which is combined with import restrictions of various kinds. Preferences vary among regions, countries, as well as for products. The sixty eight 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 most agricultural goods not covered by the Common Agricultural Policy (CAP). The second group of developing countries subject to preferential trade agreement are twelve Mediterranean countries which have free access to EEC market for most manufactures and semi-manufactures with restrictions in textiles and clothing. Agricultural products enjoy reduced tariff duties on non-CAP products.

A lower preferential status applies to developing countries of Asia and Latin America, which with the exception of Taiwan Province of China, are entitled to GSP treatment. An important aspect of EEC GSP is that a considerable number of "sensitive" products including most textile-clothing and petroleum products are subject to tariff quotas (TQs) or ceiling. Also in several instances many of these EECs TQs or ceilings are sub-divided into member States shares of sub-quotas. The quotas on textile and clothing from nineteen developing countries, under the Multi Fiber Agreement (MFA), are generally sub-divided into EEC member States shares. Presently certain sub-quotas remain under-utilised, but there are restrictions on the transfer of unused portion to a member whose quota is filled. The market is segmented in this way and hence the overall Community quota cannot be fully used up.[14] 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 border customs checks are completely removed within the Community as is planned, then article 115 will be obsolete since it will no longer be possible to prevent national import restrictions being circumvented by importing goods indirectly via other EEC countries. The removal of national barriers among the Community members may lead to greater utilisation of EEC quota not only under MFA but also non-MFA bilateral agreements (which applies to several developing countries not participant in MFA but subject to textile and clothing restriction by EEC members) than at present.

Article 115 has also been used to reinforce quantitative restrictions imposed by individual member States against third countries. With the completion of the single market, EEC is compelled to adopt a uniform trade policy towards third countries. This means that these national restrictions have to be either totally removed or become "communalised". Although the first solution would be in the spirit of enhanced competition inherent in the single market initiative it might not be compatible with political realities. It is likely that there would be Community wide import restrictions for individual products after 1992. However, it is the magnitude and duration of such restrictions that will be of crucial importance in shaping EEC Trade policy in the post-1992 era. "Communalisation" of non-tariff barrier by EEC would be of a temporary nature and of mild magnitude if it is leaning towards the trade policy of liberal members like Germany. Conversely, it would lead to intensification of EEC protectionist policy if member States with a relatively high level of quantitative restrictions succeed to dominate EEC trade policy thinking.

Certain member countries with a relatively high level of quantitative restrictions have been demanding Community-levels substitute solution to replace their own protective measures in "sensitive" areas.[15] Also some member countries are seeking compensation for the

protection they now enjoy under Article 115. Such compensation could be in the form of higher tariffs (i.e. tariff equivalents of quantitative restrictions) or lower EEC-wide quotas than the sum of prevailing country quotas. Another form of compensation could be through imposition of technical standards and specifications on exports from non-members which then act as non-tariff barrier. However, the main issue for consideration is the level as well as duration of such Community wide protection in post-1992. External trade policy, although it is a political decision reflecting the balance of various pressure groups, nevertheless has its roots in economic realities. The adoption of a liberal trade policy by the EEC is more plausible should the completion of 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 and iron and steel which are of particular interest to developing countries.

EEC trade policy in the last two decades has moved towards increasing recourse to non-tariff intervention.[16] Protectionist measures are not confined to agriculture, which is delinked from international competition and fluctuations in prices through the combination of variable import levies and subsidies within the CAP. One instrument of non-tariff intervention has been the imposition of quantitative restrictions including voluntary export restraint (VERs), orderly marketing arrangement, basic price system, etc. There has been also a division of labour between the Community and the member countries with regard to the imposition of export restraint agreements on different sectors.

The Community VERs are concentrated on textiles, agriculture and steel products, whereas those of the member countries are mainly focused on electronics, automobiles and shoe imports. Quantitative restrictions are aimed at selective developing countries which have penetrated the EEC market, most notably Asian NICs and some Latin American countries.

Elimination of these barriers will have a positive effect on exports of textile, steel, footwear, consumer electronics and ceramic tableware from developing countries. It is worth noting that certain quantitative restrictions do not depend on recourse to Article 115. For instance, Community-wide VERs on steel from Brazil, South Korea and Venezuela is based on Article 97 of European Coal and steel Community (ECSC) Treaty and will not be affected by the elimination of recourse to Article 115.

Nevertheless, if the single market lead to abolishment of member state sub-quotas this would mean some liberalisation, since each exporting country could exploit its EEC quotas more fully.

EC has also been resorting to increasing use of countervailing and particularly, anti-dumping duties, sometimes linked to regulations concerning local content(known as screwdriver ruling). Anti-dumping duties are 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 is now growing evidence that the EEC resorts to anti-dumping measures arbitrarily since estimation of "dumping" by the EEC is subject to considerable degree of manipulation. GATT notes that the EEC ranks among the most intensive users of anti-dumping measures world wide.[17]

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. Liberalisation process will adversely affect ACP exporters and also Mediterranean developing countries.

The EC market is of far greater importance to ACP countries as well as Mediterranean countries than to developing countries of Asia and Latin America.[18] ACP countries are dependent on EEC market for more than half of their exports. Also, more that 60 per cent of Mediterranean countries export to the industrialised world is directed at EC market. Dependency on EEC market is much lower for

Latin America and, notably, Asian countries. The last two groups are dependent on the EEC market for less than a quarter of their exports.

Given the privileged position of ACP and to some extent Mediterranean countries then a move towards trade liberalisation in EC after 1992 can lead to erosion of preferences for these two groups. The removal of national quotas on clothing imports in a borderless Europe may lead to acute competition between products of Asian NICs and those of Maghreb countries or Mauritius; similarly removal of national quotas can substantially benefit the banana exports of Latin American Countries to the Community at the expense of ACP countries (see Box 1). Cane sugar producers from ACP countries will be also adversely affected as a result of 1992 measures (see Box 2). ACP countries are also currently concerned about the erosion of their preferences through reduction in MFN tariffs rates negotiated through the Uruguay Round, particularly in the case of tropical products. However, preferential trade agreements in themselves are not an adequate means of trade expansion.

Despite their preferential status in the EC market ACP has lost its share of extra-EEC import considerably, due to their limited supply capability which was accentuated by the fall in commodity prices and financial crisis arising from their high level of indebtedness in the 1980s (Table 8). Relative performance of various developing countries in EC market is presented in Table 8. Prominent has been the collapse in the share of OPEC and ACP countries and sudden rise in the share of Asian NICs and other Asian countries. This is particularly noteworthy as Asian and Latin American countries have a lower preferential status in the EEC market than ACP and Mediterranean countries.

Trade liberalisation will particularly benefit those Asian or Latin American countries with elastic supply which have been subject to various non-tariff barriers in the EEC market. As for ACP countries, however, various types of financial and technical assistance available under Lome Convention, or a compensatory scheme, or a combination of both can counteract any potential losses incurred as a result of EEC trade liberalisation policy.

PART 5

IMPACT OF CHANGES IN CENTRAL AND EASTERN EUROPE AND THE GRADUAL INTEGRATION OF EASTERN EUROPEAN COUNTRIES WITH THE REST OF EUROPE

5.1 Link Between Economic Performance and Trade Links

Recent dramatic changes in Central and Eastern Europe (C and E E)[19] initially led to a sense of 'Europhoria' in terms of expected major increases in output, as well as major changes and increases in trade flows, etc, resulting from political change and economic reform; the trends emerging from events in 1990 imply however a far less positive initial economic effect and a far more complex one than initially expected.

Recent external events complicating the economic evolution of Eastern Europe include:

1. the rapid disappearance of CMEA (the Council for Mutual Economic Assistance) has implied an important loss of former assured markets for East European countries;

2. the even more rapid unification of Germany (with initially very problematic effects on the East German economy and on trade links between the rest of Eastern Europe and East Germany);

3. the far slower than expected progress of the Soviet Union in economic reforms, and the political as well as nationalist tensions there have had negative effects on Soviet levels of production and on their trade links; and

4. the changes to world market prices and convertible currencies of trade formerly conducted within the CMEA framework has implied serious Balance of Payments pressures on many East European countries, especially oil-importing ones.

To these mainly external factors, it is naturally also important to add the many and often unexpected purely domestically generated complexities of the process of market reforms.

Recent ECE figures[20] have confirmed the rather gloomy initial economic performance of Eastern Europe, in reporting that East

European industrial output fell in 1990 (compared to 1989) by 17.5%, that output of all goods declined by 11.0% during the same period, while gross fixed investment declined by 14%. Estimated trade flows from and to C and E E also declined, though relatively less; however, according to ECE estimates, exports from C and E E to developed market economies (and particularly to the European Community) increased quite significantly.

It should however be emphasised that the medium- and particularly the long-term-outlook of Eastern Europe may in fact well be very positive. Features such as the high levels of skills of the East European countries' labour force, the important amounts of Western public flows going to Eastern Europe,[21] and a strong broad popular consensus for a market economy may well in several or all of Central and Eastern European countries lead to successful economic performance in the medium-term. The key point we wish to stress here is that this success cannot as yet be taken completely for granted, and that therefore the level of optimism about the degree and speed of improved economic performance is an important factor in assessing likely effects of changes in C and E E on trade links with the rest of Europe and with developing countries.[22]

As a consequence, analysis of effects of changes in Eastern Europe and of relatively closer integration of those countries into Western Europe need to carefully make explicit the time frame within which they operate and possibly work with alternative scenarios, assuming different levels of success for market reforms and the stabilisation process. Furthermore, greater emphasis must be made than has till recently been done on the differences between Central and Eastern European countries (as regards initial economic situation, commitment to market reforms, political stability, etc). For example, at present Czechoslovakia and Hungary are often seen as the countries relatively more likely to succeed sooner in the process of economic reforms, partly due to the relatively better initial state of the economy at the time of the 1989 revolution, and due to the deeper commitment of the population to make the market and political reforms irreversible.[23]

5.2 Past History of Trade Links Between Central and Eastern Europe and Developing Countries

Given the momentous changes occurring in C and E E economies, and their trade links with the rest of the world, it would be inappropriate to base estimates on future trade links only or perhaps even mainly on the current structure of these links. However, the existing structure of trade links does provide a useful initial basis for our analysis.

A first point to make (see Table 9) is that the share of developing countries' exports in total Central and East European imports was not too high reaching only 7.6% in 1988, the last year for which reliable detailed figures were available; to this figure should be added the imports from the formerly centrally planned economies of Asia (mainly China) which reach 2.2%.

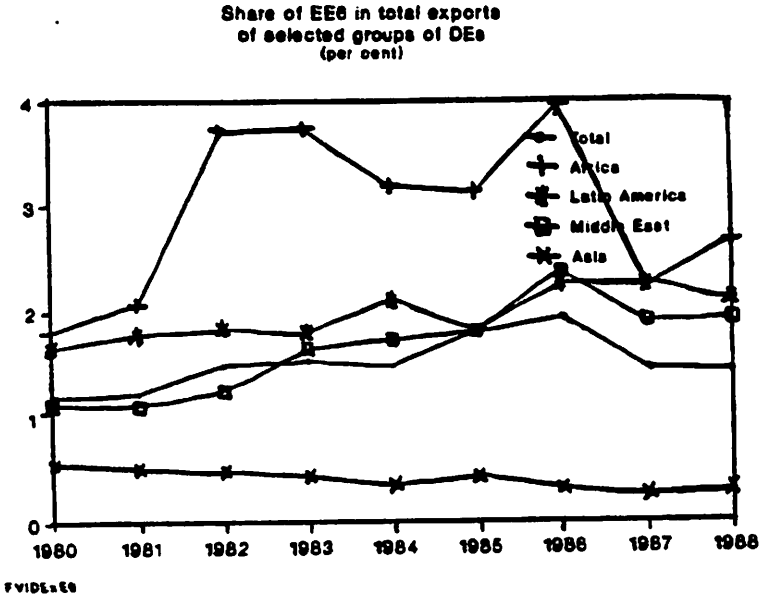
It is noteworthy that the share of Central and East European imports from developing countries in 1988 and 1987 were the lowest ones in the 1980s decade, reflecting an apparent trend of decline of the share of imports coming from developing countries.[24]

As can be seen in Table 9, relatively the most important developing region from which C and E E imports came was Latin America (with 2.1% of total Central and East European imports), followed by the Middle East and Africa (with 1.6% and 1.4% of total Central and East European imports, respectively).

As regards the share of total developing countries' exports that have been going to Central and Eastern European countries, this is very low; for the total of developing countries it reached only 1.5% for 1988, and was always below 2% during the 1980s (see Figure 1). The share was the highest for African countries (reaching up to 4% in some years during the 1980s and the lowest for Asian countries, where the share declined steadily from around 0.5% in 1980!). Latin America was in an intermediate position, with the share of its total exports going to Central and Eastern Europe averaging around 2%, and rising slightly towards the end of the decade.

It should however be stressed that the situation is totally different for the three developing countries (Cuba, Mongolia and Vietnam) which were full members of the CMEA; in particular during the 1980s the share of CMEA (which includes both Central and Eastern Europe, as well as the Soviet Union) in the total exports of Cuba, ranged between 65 and 87%.[25]

Figure 1



As regards the commodity structure of Central and East European imports, it can be seen in Table 9 that the share of developing countries is clearly the highest (42%, for 1988) for food, beverages and tobacco; an important part of C and E E total imports from developing countries in this category (over 70%) came from Latin America. Within food, an important item is cereals, where over 20% of total imports comes from LDCs, with half of that coming from Latin America and the other half coming from Asian countries.

It is interesting that the share of foodstuffs, beverages and tobacco in Latin America's total exports to Central and Eastern Europe, has been rising quite substantially during the second half of the 1980s (see Table 10). Thus, the proportion of foodstuffs exports from Latin America, (in relation to total exports) which was always high, has had a trend to increase further. Also relatively important, though declining as a share of total Latin American exports to C and E E, are exports of raw materials. It seems likely that in the near

future growth of imports from Latin American countries will continue to be in these items, given that trade liberalisation should further increase potential demand for such goods, provided consumers in C and E E have sufficiently high incomes and - above all - the countries have sufficient foreign exchange to finance such imports. Should industrial production start rising significantly in Central and Eastern Europe, demand for Latin American (and other LDCs') raw materials could rise sharply.

It is noteworthy (and a possible cause of concern) that the share of Latin American exports of manufactured goods (SITC 5.8) has actually fallen during the 1980s, and particularly since 1985 (see Table 10). In 1988, of total Latin American exports to Central and East European countries only about 8% were in manufactured goods, and less than 0.5% were in machinery and transport equipment.

From Table 9 we can see that all developing countries had a very small share in C and E E's total imports of machinery and equipment (of only around 2%); indeed, most imports of this item (over 75%) came from the CMEA, with only 22% coming from the developed market countries. The latter proportion is likely to change quite dramatically, as the countries of C and E E rapidly shift their imports of machinery and equipment from their former CMEA partners to the developed market economies; it seems difficult - though perhaps not impossible - for Latin American countries to participate in this shift. As regards other manufactured goods, the share of total imports coming from developing countries (at 8%) is relatively higher than that for machinery, with a relatively large share of those imports coming however from Asia, particularly in items such as textiles and fabrics (see again Table 9). Latin America's share in exports of iron and steel, to C and E E, was, however, relatively high.

Before finishing this section, it seems interesting to compare the structure of Latin America's exports to the EEC with the structure of the region's exports to C and E E (Tables 5 and 10). It is noteworthy that Latin America's exports to C and E E are far more heavily concentrated on food, beverages and tobacco than their exports to the EEC. On the other hand, a far higher share of Latin

America's exports to the EEC is in raw materials and fuel, than in the case of C and E E. Finally, the share of all manufactures is significantly higher (at 12.3% in 1988) to the EEC than to C and E E, at 7.8%.[26]

Thus, should the current structure of trade links remain and should the countries of C and E E start at some point growing rapidly, then demand for Latin American products could 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, tea), but also for other food products (e.g. vegetables, seafood) where there is a great backlog of pent up unsatisfied demand in C and E E, and therefore where income elasticities are far higher than in other countries, e.g. in Western Europe. This type of possible trend is illustrated by the projection made by the Union of Banana Exporting countries that banana exports to C and E E, as well as to the Soviet Union are expected to double in a fairly short period. However, as pointed out above, such projections rest on the uncertain assumption of rapid growth in C and E E and sufficient foreign exchange availability to fund imports of consumer goods.

To the extent that, however, the countries of C and E E start to increase their industrial output, they will demand more raw materials, an important part of which would come from developing countries. Furthermore, if we assume that the process of C and E E 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 possible some share coming from the Asian NICs; though it is unlikely that Latin American countries will benefit in a major way directly from such opportunities, (though 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,(e.g. copper, aluminium, etc) which are used for

machinery, transport equipment and telecommunications. These indirect potential benefits from increased investment in C and E E could even be the most important effect on LDC (and Latin American) trade flows of changes in C and E E.

Furthermore, to the extent that industrial restructuring in C and E E results in 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.

In a number of these opportunities, special efforts may need to be made, by LDC entrepreneurs, governments and international institutions, to identify the market opportunities rapidly, promote the demand for LDC exports, establish new trading links and explore or develop sources for trade finance.

5.3 Other Elements in C and E E Influencing Developing Countries' Trade Links

The discussion above has focussed almost exclusively on possible trade creation effects from changes in C and E E, broadly based on the historical structure of trade.

However, other factors will influence the future patterns of trade of C and E E with the rest of the world, (and especially with Western Europe), with potential effects on developing countries, that may result mainly (though not only) in trade diversion. It is appropriate to emphasise here C and E E exports to the EEC and their effects on LDCs not only because this is the focus of our paper, but also because exports of the C and E E countries to developed market economies were very heavily concentrated in Western Europe; thus, of total C and E E exports in 1988 to developed market economies, 88% went to West European markets, with similarly high shares in both primary and industrial products.[27]

One of the factors which can shed light on the medium- to long-term trade potential of a reformed Eastern Europe are data on resource endowments, as these should affect comparative advantage.

As the CEPR study quoted above points out, C and E E has relative abundance of labour, with relatively high levels of skill; indeed, there is evidence to indicate that the overall level of educational attainment in C and E E is somewhat below that of the European Community Northern countries and EFTA on the one hand and somewhat above European Southern countries and the NICs on the other. In particular, the share of the labour force engaged in R and D (research and development) is very high. This would seem to suggest a potential long-term comparative advantage in high-tech industries, (such as are exported mainly by the NICs and by developed market economies) rather than in more standard labour intensive products, like textiles, which most developing countries export. This analysis would seem to hint at the fact that at least in the long-term those that need to fear most from possible trade diversion would be high-tech industrial exports from developing countries, such as cars and electronic consumer goods.

As regards the capital stock in C and E E, many Western studies indicate that there was much neglect of infrastructure, especially but not only in telecommunications. Much of domestic savings will for many years be absorbed by investment in infrastructure. Consequently, it can be assumed that little domestic capital will be available for the production of tradeable goods. Therefore, the extent to which C and E E countries will be able to invest in the production of tradeable goods may rely to an important extent on significant amounts of foreign direct investment, coming into that region. We will comment on levels of foreign direct investment below.

One area where potential large increases in tradeable production may occur in C and E E, without very large additional capital investment, is that of cereals and dairy products. Productivity in C and E E agriculture is relatively low; if and when clear property rights are established, important production gains can occur. Given the large shares of existing world production that C and E E has, in cereals and dairy products, important increases of output and exports could lead to declines in world prices and possibly increased protectionism of those products in the European Community, with possible negative effects on developing country exporters of those products.

5.4 Relatively More Preferential Access of C and E E to European Markets

As pointed out above, the European Community's trade relations are based on a hierarchical set of preferences. The C and E E countries of the CMEA were at the bottom of the hierarchy scale of the EC's market opening policy. Since the mid eighties, however, improved access to the EC market began to be granted. This rapprochement, originally planned in small steps, was significantly accelerated by the revolutions in C and E E. For example most EC and certain other G-24 member countries have recently extended the application of their General System of Preferences (GSP) régimes to Hungary and Poland as of January 1990, and to Czechoslovakia and Bulgaria by mid-1990. Romania already had GSP.

In November 1989, the EC decided to lift specific (discriminatory) quantitative restrictions on Polish and Hungarian goods as of the beginning of 1990. However, non-discriminatory quantitative restrictions were to remain in place and products subject to sectoral agreements - textiles, steel and agriculture - were not to be affected. Subsequently, the EC Commission proposed additional liberalization measures: a one year suspension of remaining quantitative restrictions on such products as passenger cars, footwear and toys; granting significant increases in quotas on imports of textiles above levels agreed within the framework of the Multifibre Arrangement; finalisation of a new agreement with the two countries on steel products, which would pave the way for the eventual elimination of the quantitative restrictions applied by a number of EC countries. In a separate initiative, the European Community agreed to a 15 per cent enlargement in steel imports quotas for Bulgaria, Czechoslovakia, Hungary, Poland and Romania. The EC has also agreed to provide more favourable treatment for some of Hungary's and Poland's agricultural products, including in some cases tariff rebates as of 1990.

The overall quantitative impact of the trade measures taken by western countries is difficult to assess. Even the estimation of static gains is problematic because eastern exports have often been constrained more by supply factors than by EC policies, although this

has varied from sector to sector. According to Mobius and Schumacher,[28] special EC quotas have often gone unfilled, because of supply problems. Hence, the lifting of certain EC restrictions does not automatically imply an increase in exports from C and E E, though it naturally makes such exports easier.

No comprehensive assessment of the impact of the recent trade liberalisation measures is presently available. However, preliminary estimates show meaningful gains. It is estimated that the EC's GSP represents a potential gain of some ECU 100 million for Hungary and Poland combined. Tariffs applied to their industrial goods (presently in the range of 8-22 per cent) will be lifted totally. The Community's concessions on textiles are estimated to be worth approximately ECU 80 million to Poland and ECU 50 million to Hungary. For Hungary alone, it has been estimated that the EC's concessions on industrial products could yield an additional $60-80 million annually in export revenues. More broadly, Hungarian economists have attributed some one-third of the rather rapid growth of exports to the EC in the first half of 1990 to the European Community's liberalisation of trade.[29]

The importance which the West attaches to support for Eastern Europe is reflected on its willingness to increase market access even in the traditionally "sensitive" product areas - textiles, steel, agriculture - despite resistance from some governments and interest groups.

Ties are also becoming closer between the countries of C and E E and EFTA countries. In June 1990, the EFTA countries invited CSFR, Hungary and Poland to start discussions in late 1990 about free trade agreements with the aim that the EFTA countries liberalise trade in manufactures in parallel with the Community.

The extent to which exports from C and E E 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 E E 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 11) countries according to their similarity in their export structure to the EEC, with the export structure of the countries of C and E E to the EEC. It is reassuring to see that the countries of C and E E 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 E E 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 E E and their main LDC competitors in 1989.[30] 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). Far less affected were other Latin American countries, with Mexico having to compete only with 2 products in this category (semi-finished products of iron and steel and polymers of chloride) and Uruguay also having to compete with items (raw hides and casein).

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).

5.5 Foreign Direct Investment in C and E E and its Potential Impact on LDCs

After the revolutions of 1989 in C and E E took place, great interest was expressed by foreign companies to invest in that region. The most compelling reason for foreign investors to be attracted to C and E E was strategic. Being the first into the region was seen to help secure a company's position for a potentially large and growing market place, not just for C and E E, but possibly later for the

Soviet Union (and for extra-EEC investors) into the EEC. Furthermore, there was a rush to sign joint venture agreements so as to be able to pick the best local companies in C and E E.

This initial enthusiasm by foreign investors for C and E E raised two separate, though related, fears in developing countries, and Latin America in particular.

Firstly, would there be a deviation of direct investment resources that would otherwise have gone to developing countries; would this not reinforce risks of deviation of foreign direct investment, that would otherwise have gone to developing countries, which were now already coming into Europe, due to 1992?[31] Secondly, and perhaps more relevant in the long-term, will these FDI flows generate export capacity in C and E E that could in future compete with - and possibly displace - developing country exports?

To attempt to throw some light on both these questions, we will first look at what has actually occurred to FDI flows to C and E E.

A first point to make is that till now there has been far greater enthusiasm to sign joint venture agreements (and thus 'take positions in these countries') than to commit significant or even any resources. For example, in CSFR (see Table 12) by April 1991, 2.864 joint ventures had been registered, but only 400 were operating,[32] similarly in Poland, at the end of 1989, economic activity was started by less than 45% of companies that had obtained licences from the government[33]. Similar trends seem true for Germany;[34] according to a poll of 500 of West Germany's largest companies only 3 per cent were in early 1991 already producing in East Germany, even though 16 per cent were already investing and a further 31 per cent said they intended to start investing by the end of 1991.

The main reason for the difference between planned and effective FDI relates to the economic and political uncertainties still surrounding the reform process in C and E E. A particularly serious obstacle to FDI is lack of clarity on property rights as it is still (in early 1991) often difficult to establish who owns a particular property, even though gradual progress is made in this field; other obstacles are lack of modern telecommunications and accounting methods.

As can be seen in Table 12, though the number of joint ventures established is very large, the amounts of cumulative FDI flows are relatively low. Hungary seems clearly the country in C and E E that has attracted most FDI; in 1990 it is estimated to have received almost $1 billion (see Table 12). It is interesting that Hungary was already the country attracting relatively most FDI before the 1989 revolutions took place, probably because important economic reforms already had been implemented by the previous regime. Though at a lower level, Czechoslovakia and Poland also have attracted relatively high flows.

However, in absolute terms, the estimated levels of cumulative foreign investment in C and E E are still fairly low. It would seem therefore that the risk of major diversion of FDI flows that would have otherwise flown to developing countries is limited. This is particularly so because FDI flows do not seem to be very supply constrained, given the vast size of global foreign direct investment flows worldwide. In particular, LDCs who are attractive to FDI (because of high growth, low inflation, political stability) would seem to have little to fear from C and E E competition.

An important exception to this conclusion is clearly West Germany, a country from which large direct investment flows are going to C and E E (see Table 13), and naturally to East Germany. As West Germany has been such an important source of private flows to LDCs (including Latin America), then there does seem to be quite an important risk of some deviation of German FDI, that would have potentially gone instead to LDCs.

More generally, there is relatively greater risk of some deviation from European FDI sources, relatively smaller from USA sources and at least in the short-term practically none from Japan (see again Table 13).

The risk of diversion also seems to relate to size of firms. Large multinationals (except possibly German ones) would tend to continue to invest in LDCs pursuing their global strategies. Some small or medium sized European firms may be somewhat more likely to regard C

and E E, as an alternative to Latin America and other LDCs for investment.

As regards the second issue raised - whether present and future FDI in C and E E could generate export capacity in that region which could compete with LDCs - the answer seems more complex. In the short-term, such an effect seems unlikely, as the levels of FDI are so low and as there are so many other problems in these countries. In the medium-term, it needs to be remembered that not only private flows but also public ones (e.g. from EBRD, World Bank and EIB) will be contributing to investment activities in C and E E, especially in key sectors such as infrastructure, energy and industrial restructuring; some of this investment could possibly lead directly to increasing export capacity; more importantly, by helping to supply vitally necessary infrastructure and supporting privatisation, it may indirectly make these countries more attractive to FDI and thus help attract FDI in the future, part of whose production could potentially compete with LDCs; this competition would occur particularly in those markets which are geographically close, where C and E E already has a strong presence (especially EEC), and where it would enjoy relatively more favourable market access than in the past, (thus under-cutting any relative advantage that LDCs had in the past or even obtaining a more advantageous position than LDCs have at present in a hierarchy of preferences, again particularly in the EEC).

It should be stressed that significant FDI will only come for such purposes if: a) there is greater economic and political stability in C and E E than till now, b) there is economic growth. Both conditions seem more likely to occur from the mid-90s onwards, than in the short-term future. Furthermore, foreign investors will go into export producing sectors only if policies are followed that make exports profitable (which seems fairly likely) and market access is relatively easier (which also seems likely).

FDI in C and E E has till now generally been seen[35] as going mainly into the service sector (including tourism) and into relatively low technology fields.

Table 14 reflects the strong investor inclination towards the service sector, where initial capital outlays are not so great.

However, recent investments in CSFR and Hungary imply important FDI in high technology fields, particularly the automotive industry, some of which will be for exports outside the region, and particularly for Western Europe. This would tend to affect most the more industrially advanced LDCs. It is in the sphere of serving as a base for sales to the West European market, that C and E E may increasingly become a potential competitor for developing countries. Geographic proximity, strong cultural and historical links (though the limited existence of a business culture is seen as a problem), and the technical skills of an educated, though relatively low cost, labour force make C and E E particularly attractive as a base for exporting to Western Europe, especially in the context of 1992 and a broader European space.

In other markets, the likelihood of current and future FDI flows to C and E E leading to production which could displace developing country exports seems far less likely.

As regards FDI, also positive affects can occur from South-East links, implying mutual benefits. As McMillan, op. cit., points out, FDI from C and E E going to developing countries has been growing in recent years. The total number of direct investments by Poland, Hungary, CSFR and the USSR in developing countries reached 225 by the end of 1990. Furthermore, the trade and investment opportunities provided by changes in Eastern Europe and the Soviet Union have stimulated investment from LDCs; of the 760 new joint ventures registered in the USSR in 1990, 8.5% had capital participation from LDC firms.

PART 6

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.

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 concerns, with less attention paid to multilateral issues; developing countries have suffered given their clear interest in furthering trade liberalisation through the Uruguay Round. 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 a group of LDCs, headed by Hong Kong, to lead an informal group in the GATT to try to change arbitrary and biased EC regulations, such as anti-dumping.

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 need to make 1992 work more effectively could lead the EEC to extend both the limits of protection as well as negotiation. 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) and by integration or semi-integration of Central and Eastern Europe.

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, according to some authors exerting oligopolic power. A clear example[36] of how the EEC has begun to use its increased power is reflected in its demands for "reciprocity" (from developing and developed market economics) in return for continued access to EC markets, a position which is 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.

It would seem important that developing countries, possibly in alliance with developed countries, lobby in the first instance the EEC for it to drop reciprocity from the Single Market context, and return to the principles of the EEC Treaty; pressure could also be exerted via multilateral fora, and particularly through the GATT.

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.

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[37] 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 legislations or attracting much public attention.[38] It is important that developing countries (and Latin American ones on particular) 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 informal group led by Hong Kong. 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 excellent 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.[39]

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.[40] 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 this field from Japanese and ASEAN lobbying experiences.

A third possibility implies actions using parallel issues (via either persuasion or threat) of roughly an equivalent magnitude. The type of actions that can be undertaken are, threat to ban imports of an EEC influential company, (which will then lobby on the LDC's 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 actions. 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.[41]

Finally, developing countries can also use anti-dumping actions, themselves, partly to counter-act 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.[42]

It is important to emphasis, 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, op cit., 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 relative 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.

The last 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 Latin American 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. A rapid analysis is then required 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 approved, in the European Parliament, the directives go to the national Parliaments for ratification. Appeals can also be made to the European Court of Justice.[43] If LDCs were to wish to lobby for changes in directives, they would need to identify in this process the most relevant instances for lobbying.

Besides bargaining for ensuring access to open markets, Latin American 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 Latin American 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 investment in sewage or improving existing plants; particularly in the case of fish and sea-food, in the short-term, the problem of cholera, may lead even to tighter controls and restrictions.

To overcome this problem, it is important to carry out in a timely way the required investment to meet the harmonised standards; furthermore, it is important to use public relations so as to reassure European countries and relevant authorities of the quality of Latin American products. As mentioned, prompt information about changing technical standards is very important.

The Single European Market provides not only changes in trade flows but potentially in financial flows, including aid. The changes in C and E E are leading to an important increase in EEC aid to that region;[44] furthermore, the process of restructuring that will accompany 1992 may lead to an increase in aid funds to the poorer regions of the EEC. Both tendencies could well lead to a decline of EEC aid flows to developing countries. Developing countries should naturally lobby for levels of aid to be maintained; they could also lobby for a change which seems logical in the context of 1992, that aid tied to purchases in the donor country be replaced by aid tied to purchases in the whole Community. As Stevens[45] points out, the Dutch government has already broadly accepted this principle, by indicating it would allow companies from other member states to tender for its aid contracts, - provided the other member states have links of aid at a per cent of GDP as high as the Dutch.

Particularly if aid levels from the Community to LDCs (and to specific regions) were to decline, then the case for aid untying at a Community level would be very strong.

For all developing countries, this could have a potentially large effect. It has been estimated[46] that LDCs could gain as much as US$ 2.5 billion by the untying of EEC countries bilateral aid. Though this would have fairly limited effect on the larger and relatively richer Latin American countries, it could benefit some of the smaller and poorer ones, e.g. in Central America. Particularly for them, it is therefore an important element to consider in negotiations with the EEC. However, the issue would need to be carefully negotiated, so that untying (at a Community level) of bilateral aid does not lead to a reduction of such aid; the logic of the argument would have to be based on that such changes in aid policy are clearly consistent with the move to a unified internal market.

6.1 Policy Options for Developing Countries in a Regionalised World Economy

In the wake of the completion of the single market the process of European integration has acquired new momentum. The pace and intensity of this process goes far beyond the early integration efforts which led to the creation of the EEC in 1968 on Free Trade

arrangements which was concluded between the EEC and the EFTA in the early 1970s. Iberian enlargement of the EEC since the mid 1980s and the completion of a single market by 1993 have given new dynamism to European integration. Furthermore there is strong possibility that most EFTA Countries as early as 1995 or soon afterwards may have joined the EEC either together or separately.[47] Above all political and economic transformation of East European Countries may encompass the gradual re-integration of these economies into the European sphere.

This trend towards regionalism is not confined to Europe. The US-Canada Free Trade agreement signed in 1989 is designed to increase intra-North American Trade by removing tariff and several non-tariff barriers as well as to facilitate the free flow of capital and human resources across their border. Moreover, Japan has developed strong trade and investment links with its South East Asian neighbours, notably with the four Asian NICs.

This growing generalised trend towards regionalism in the world economy has undermined the principle of multilateralism which has been regarded as the point of reference and the first best arrangement for international trade policy since the formation of GATT in 1945.

How can developing countries 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 deserve considerable 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 block 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 such as Andean Common market (ACM); the association of Southeast Asian Nations (ASEAN); the Caribbean Community (CARICOM); the Southern and East African preferential trade area (PTA); the Economic co-operation among the countries of the Maghreb, etc. Regional agreements can be also among one or more developing country and a major industrialised country such as the Free Trade Agreement between the USA and Mexico which is in the process of negotiation.

However the past record of Regional co-operation and integration among developing countries is far from encouraging. It is well known that various types of Regional agreements and co-operation, regardless of their peculiarities, have not led to a significant, lasting expansion in intra-regional trade and investment among developing countries involved. Nor have such agreements enhanced the collective negotiation power of the members vis-a-vis the rest of the world. The Andean pact which is probably the most comprehensive of these regional agreements has been ineffectual as a common market and it remained a collection of small unrelated markets despite the fact that it encompasses not only provisions for a common market including a custom union and free movement of factors of production but also for an economic union which entail regional planning of investment and harmonisation of policies related to foreign direct investment. Although the Andean Pact adopted a common policy towards foreign direct investment and technology transfer in the 1970s nevertheless most of its potential remained unused because of dispute among members and prolonged bureaucratic procedures. The situation is changing, however, for the better.[48] The Andean group have recently signed an accord designed to implement fully a free trade zone by the end of 1995. Furthermore the group intend to begin negotiating as a group with the US in response to direct negotiations between Mexico and the US on establishment of a free trade zone. The present strengthening of the Andean Pact as a group is also a response to the recent organisation of the southern common market, made up of Argentina, Brazil, Paraguay and Uruguay.

Regionalisation of the world economy has also undermined the traditional division of the international economy into "North and

South". The U.S. response to European regional integration and regionalisation of South East Asia is the creation of a trade block with its Northern as well as Southern neighbours. The proposed trade block in which Mexico would join with the U.S and Canada to form a Free Trade zone is faced with the opposition from trade union and environmentalists in the U.S. Nevertheless it has the support of American Congress. Moreover four more Latin American countries Chile, Ecuador, Colombia and Bolivia agreed bilaterally with the U.S. on a framework of negotiation to start gradual reduction of trade barriers between these countries and the U.S.A. Chile is expected to be second to Mexico in joining the North American free trade zone to take advantage of Bush's "Enterprise for the Americas" initiative.

Joining the North American trade block would improve the negotiation power of Latin American countries vis-a-vis Europe. A collective negotiation with the U.S. by a group of Latin American countries might be preferable to bilateral negotiation. A collective negotiation can strengthen the bargaining power of Latin American Countries vis-a-vis the US at least with respect to the terms and condition under which trade liberalisation between these countries and the U.S. would be carried out.

Developing countries should also realise that an effective move towards regional integration is a necessary step towards rationalisation of investment decision and industrial restructuring which is crucial for their industrial efficiency.

Furthermore developing countries should aim at "open regionalism" rather than formation of a discriminatory Free Trade area like the EEC.[49] The exact content and framework of "open regionalism" should be worked out carefully. Nevertheless, the Western Europe regionalism in the 1950s and 1960s was in the spirit of "open regionalism" and a complement to a multilateral trading system rather than a substitute. This is probably a more appropriate model than the model of West European regionalism since 1970s which has tried to undermine the principle of multilateralism.

Another form of "grouping" which can improve the bargaining power of developing countries is an issue-specific alliance such as the Cairns group.[50] The group is a cross- cutting coalition of developed and

developing countries which has advocated the need of incorporating agriculture into the GATT system. The group has been also meditating between the EEC and the U.S as regard to their conflict on agricultural trade. The members of the alliance include Argentina, Australia, Brazil, Canada, Chile, Columbia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay. The group which has special interest in agricultural trade liberalisation has been effective within GATT.

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 in industries such as construction, petrochemicals, shoes and textiles. Indian companies are also entering the European Community particularly in the engineering sector. South Korean electronic companies such as Samsung, Goldstar and Daellioo have established plants in the EEC in order to better serve the market.[51] Taiwan Province of China has been building its commercial ties with Europe to reduce its reliance on the U.S. Not only trade missions to the EEC have been actively encouraged but also Taiwanese electronic and garment producers have set up plants in the European Community. Hong Kong enterprises in toy manufacturing and textiles have also acquired plants in the EEC. The Government of Singapore has shown strong support for companies to invest abroad particularly through joint ventures with european enterprises.

Of course not all developing countries have the technological ability of setting up plants in the EEC market. Nevertheless as was discussed in this section there is a number of policy options which developing countries can explore to improve their access to the EEC market. The choice of policy will vary from one country to another depending on the peculiarities of individual developing countries as well as the specificities of their trade relation with the EEC.

FOOTNOTES

1 D. Swann (1977), the Economics of Common Market, Penguin books, pp.51 -55.

2 See for Instance Commission of the European Communities (CEC (1988) 'The Economics of 1992: An Assessment of the Potential Economic Effects of Completing the Internal Market of the European Communities', European Economy no 35 March. pp.15 - 79. Also M. Emerson and other (1988), the Economics of 1992: the EEC Commission's assessment of the Economic Effects of completing the internal market, Oxford University Press. A more popular treatment can be found in P. Cecchini (1988), The European Challenge: 1992: The benefits of a single market, Aldershot, Wildwood House for the Commission of the European Community.

3 Commission of the European Communities (CEC) (1988), 'International Trade of European Community', European Economy, March, No 39, pp.23-47.

4 CEC (1988) European economy No 35, Annex A,pp.171-188 provides a quantitative assessment of this point.

5 IbId, Annex A, pp.180 -187, Tables A.5 - A.9.

6 United Nations Conference on Trade and Development (UNCTAD) (1990) Trade and Development Report, 1990, United Nations, New York, p.81, Box 9.

7 CEC (1988) European Economy, No.35 Annex A, pp.180-182, Tables A.5 and A.6. Also M.W.S. Davenport and S. Page (1989), 'Regional Trading Agreements: The impact of the implementation of the single European market on Developing Countries' Report prepared for the UNCTAD secretariat, October, pp.25 - 27.

8 R. Baldwin, (1989) 'The Growth Effects of 1992', Economic Policy, 9, November.

9 See for example M.W.S. 'Davenport (1990) the external Policy of the Community and its effect upon the manufactured exports of the developing Countries'. Journal of Common Market Studies, Special issue on Europe 1992 and the Developing Countries. December, Vol XX1X, No. 2. pp.183-184; R. J. Langhammer (1990), 'Fuelling a New Engine of Growth or Separating Europe from Non-Europe'. Journal of Common Market Studies, special issue, December, pp.134-140.

10 A Matthews and D. McAleese (1989), "LDC primary exports EEC: Prospects Post 1992" Paper for the Netherlands Ministry of foreign affairs, the Hague October.

11 P. Gray (1989), The Economic Effects of the EEC Second enlargement, United Nations Department of International Economic and Social Affairs, New York (mimo). See also R. Hine (1989) Custom Union enlargement and adjustment; Spain's

accession to the European Community' Journal of Common Market Studies, No. 1. September.

12 Xavier Pintado et al (1988), 'Economic Aspects of the European Economic Space', European Free Trade Association (EFTA), Economic Department, occasional paper, No. 25 November, Geneva. Also; European Affairs (1989), Europe and the Nordic Countries, special section, No. 4. G. Reisch (1989); '1992 a Tremendous Challenge for EFTA'. EFTA bulletin, No. 1, Vol XXX, January - March; A. Inotai (1989), EFTA and East-West Economic Relations'. EFTA bulletin, No. 3, Vol XXX, July - September.

13 Paul Krugman, EFTA and 1992', (1988) EFTA, Economic Department, Occasional paper No. 23.

14 M.W.S. Davenport (1990), pp.184 - 185.

15 For an interesting discussion on this issue see D. Spinanger (1989), 'Is the EEC foreshadowing a Fortress Europe in 1992?' Pacific Rim Institute of comparative Economic Studies, Kiel, July.

16 D. Henderson (1989) '1992: The External Dimension', Occasional Paper 25, Group of Thirty, New York and London.

17 A detailed account of various import restrictions and anti-dumping measures applied by EEC and other Countries in recent years is presented in GATT, 'Review of Developments in the Trading Systems. September 1988 - February 1989', Geneva. See also World Trade News, Financial Times, April 17 1991, P.6.

18 Latin American Countries are highly dependent on U.S. market while Asian Countries are mainly dependent on U.S.A and Japan for their exports. Eurostat (1989), External trade, Statistical year book, statistical office of the European communities, Luxembourg.

19 The designation Central and Eastern Europe (C and E E) groups the smaller countries of that region, which used to be centrally planned. The core of the group includes Bulgaria, Czechoslovakia (now CSFR), the former German Democratic Republic, Hungary, Poland and Romania. The Soviet Union is excluded from our analysis here, both because of far greater uncertainty about the progress of economic and political reforms and because any potential links with Western Europe (on trade) would be far more tenuous, at least in the medium-term.

20 Economic Commission for Europe. Economic Survey of Europe in 1990-91. New York. 1991.

21 See, Griffith-Jones "Changes in Eastern Europe; their effects on developing countries". CEPAL Review, September 1991.

22 In this sense, we disagree with the otherwise very interesting CEPR document, Monitoring European Integration, The Impact of Eastern Europe. London. October 1990, which makes the somewhat heroic assumption that reforms will succeed.

23 See, for example, ECE, op. cit., and J. Brabant Implications of the transformations in Eastern Europe and the Soviet Union for economic relations among East, West and South. 1991. Mimeo. New York.

24 For detailed historical data, see Table VI.2 in Brabant, op. cit.

25 Source Brabant, based on CMEA data.

26 Similar comparisons are more difficult for Africa and Asia, due to differences in groupings between Tables 5 and 10.

27 Source: UN Monthly Bulletin.

28 V. Mobius and D. Schumacher "Eastern Europe and the EC: Trade Relations and Trade Policy with regard to Industrial Products", mimeo. October 1990. DIW, Berlin.

29 Source: Presentation by B. Kadar, Minister of Foreign Trade, at ECE Symposium on Reforms in Foreign Economic Relations of Eastern Europe and Soviet Union, 29 August - 2 September 1990.

30 Own calculations, based on Mobius and Schumacher figures.

31 M. Davenport and S. Page (1990) Europe: 1992 and the Developing World, ODI, London, conclude that there is some evidence that the latter diversion has already begun to happen and that it is likely to continue; correctly, they point to the need for further study and to the methodological difficulties of establishing casual links.

32 Information provided by Mrs J. Stouracova, based on CSFR Ministry of Finance and Investment Bank data.

33 M. Breitkopf "Foreign Direct Investment in Poland" Working Paper no 13. Institute of Finance. Warsaw, 1990.

34 See S. Griffith-Jones, op. cit.

35 For example, IIW, Die Weltwirschaft, 1990/2, op. cit., and Breitkopf, op. cit., Brabant, op. cit.

36 See, M. Davenport and S. Page, op. cit; also R. J. Langhammer "Fuelling a New Engine of Growth or Separating Europe from Non-Europe?" Journal of Common Market Studies. Special Issue on Europe 1992 and the Developing Countries, December 1990.

37 D. Tussie, "Trade Bargaining: A Survey of the Issues and Framework for Research". Mimeo, January 1991. FLACSO. Buenos Aires.

38 For a good analysis, see, for example, M. Davenport "The Charybdis of Anti-Dumping: A New Form of EC Industrial Policy?" RIIA Discussion Papers 22. London.

39 See, D. Tussie, op. cit., for a more detailed discussion.

40 Interview material.

41 Interview material.

42 South Korea has recently for the first time applied anti-dumping duties, on US and Japanese companies exporting polyacetal resins to their market. "Seoul hits at foreign dumping", Financial Times, 26 April 1991.

43 Interview material.

44 For further details, see S. Griffith-Jones, op. cit., and R. Young "Official Financing for Development: The Implications of Reform in Eastern Europe". UN. New York. April 1991; CDP/27/APR/NY.

45 C. Stevens "The Impact of Europe 1992 on the South" Multilateralism in Question, IDS Bulletin, January 1990.

46 S. Sideri "European Integration and the Third World" ISS Working Paper no 86, July 1990.

47 R. Taylor, EFTA sidetracked by the lure of EC membership, Financial Times, May 2, 1991, P2.

48 J. Mann, Andean Leaders Breath Fresh Life into Regional Pact. Financial Times, May 20, 1991, P4.

49 D. Lorenz, Trends Towards Regionalism in the World Economy, Intereconomies, March/April 1989.

50 D. Tussie, Holding the Balance, The Group of Cairns in the Uruguay Round, Paper Presented at IDRC sponsored workshop, SELA, Caracas February 1991.

51 An integrated European market in 1992: Implications for Singapore, The Development Bank of Singapore Economic Research Department, Singapore Briefing, No. 8 January 1989.

Table 1

Composition y EEC (12) Imports from Developing Countries

SITC	PRODUCT GROUPS	1980 %	1988 %
0,1	FOOD, BEVERAGES AND TOBACCO	11.23	16.92
2,4,68	RAW MATERIALS	11.21	13.10
3	MINERAL FUELS	61.10	23.98
5	CHEMICALS	0.94	2.57
6,68	MANUFACTURED CLASSIFIED BY MATERIALS	4.52	10.81
61	LEATHER	0.45	1.18
65	TEXTILES	1.91	3.70
66	NON METALLIC MINERAL PRODUCTS	0.71	2.00
67	IRON AND STEEL	0.52	1.31
69	MANUFACTURE OF METALS	0.35	0.97
62,63,64	OTHERS	0.58	1.65
7	MACHINERY AND TRANSPORT EQUIPMENT	3.42	14.12
71,72,73,74	MACHINERY	0.57	2.58
75	OFFICE MACHINERY AND EQUIPMENT	0.15	3.08
76	TELECOM, RECORDING EQUIPMENT	0.86	3.17
77	ELECT MACH VIES	0.78	3.61
78,79	TRANSPORT EQUIPMENT	1.06	1.68
8	MISC MANUF	6.12	17.66
84	CLOTHING	3.61	10.14
85	FOOTWEAR	0.44	1.46
81,82,83,87,88,89	OTHERS	2.07	6.06
9	OTHER SPECIAL TRANSACTIONS	1.46	0.84
TOTAL %		100	100
TOTAL IN MILLION DOLLAR		182835	145214

SOURCE: United Nations Conference on Trade and Development (UNCTAD) data bank

TABLE 2

Extra EEC (12) Imports by major product groups and origin 1988

(percentage)

ESITC		Total	Non-EEC Developed market economy countries			Japan	Developing Countries							Socialist Countries	
			Total	EFTA	USA		Total	ACP (a)	South America	SASE Asia(b)	NIC (c)	West Asia(d)	Medit. (e) Countries	East Europe	Chin
0,1	Food, beverages, tobacco	100.0	31.3	8.5	12.5	0.5	60.4	1.7	29.0	9.5	7.6	3.3	6.8	4.9	2.1
2,4,68	Raw materials	100.0	58.1	0.2	16.8	1.0	32.5	3.3	12.0	7.8	6.5	1.8	3.9	6.8	2.2
3	Mineral Fuels	100.0	22.0	14.5	4.6	0.1	59.1	6.9	4.7	0.1	0.1	26.0	12.4	18.0	0.2
5	Manufactures chemicals	100.0	76.8	36.4	27.2	7.4	12.4	2.0	2.7	2.2	1.7	2.2	3.7	7.2	2.4
6	Manufactures classified by materials	100.0	62.8	44.3	7.7	3.9	27.4	4.0	6.2	10.6	6.7	2.3	5.4	6.6	1.
61	Leather & leather manufactures	100.0	26.8	10.7	7.4	1.3	66.9	5.5	19.2	34.7	8.3	0.3	8.0	3.2	1.5
62	Rubber manufacturers	100.0	66.1	25.9	17.2	15.3	25.9	0.0	2.0	16.0	15.3	2.1	8.0	5.5	0.4
63	Wood & Cork manf.	100.0	51.7	35.6	10.5	0.4	38.7	4.4	4.2	26.5	26.0	0.1	3.6	7.6	1.2
64	Paper paperboard	100.0	94.5	83.1	5.3	1.9	4.1	0.0	2.1	0.7	0.7	0.0	1.3	1.4	0.2
65	Textiles	100.0	42.1	24.8	8.1	0.4	44.8	1.1	5.0	24.0	12.1	9.6	12.0	4.4	7.4
66	Non metallic minerals manf.	100.0	48.2	20.6	9.9	5.5	37.0	12.1	2.4	16.0	8.1	1.6	4.0	11.5	1.1
67	Iron and Steel	100.0	65.2	52.9	3.1	2.9	20.5	1.4	7.7	2.4	2.0	1.4	6.8	13.0	0.1
69	Manufacturers of Metal	100.0	70.0	41.5	16.7	9.1	20.3	0.1	0.7	16.3	14.6	0.9	3.1	4.1	1.7
7	Machinery & transport equipment	100.0	80.5	21.3	28.3	25.7	19.4	0.2	1.5	11.3	11.2	1.3	1.5	1.8	0.5
71	Power generating mach.	100.0	82.0	24.6	42.3	10.0	15.3	0.3	3.8	3.6	3.2	5.8	2.0	1.7	0.1
72	Machinery for specific industry	100.0	91.6	45.8	22.4	21.2	4.1	0.1	0.9	2.3	2.2	0.2	0.7	2.8	0.1
73	Metal working machinery	100.0	87.5	44.9	13.2	22.5	6.2	0.0	0.2	5.0	4.9	0.2	0.9	4.5	0.6
74	General industrial machinery	100.0	89.5	41.5	28.2	17.4	6.2	0.1	0.8	3.4	3.1	0.7	1.4	2.4	0.3
75	Office & data processing industry	100.0	81.7	6.0	46.6	26.5	17.0	0.1	0.4	16.4	16.4	0.1	0.1	0.1	0.1
76	Telecom recording equipment	100.0	66.7	12.6	7.4	45.4	26.9	0.1	0.9	25.1	25.1	0.5	0.6	0.6	5.4
77	Elec. machinery household equip.	100.0	70.1	19.8	25.7	22.5	22.3	0.0	0.6	19.1	19.1	0.3	3.0	1.9	0.2
78	Road vehicles	100.0	86.8	24.9	5.7	55.6	7.6	0.0	2.7	1.8	1.7	0.3	3.0	3.7	0.1
79	Other transport equipment	100.0	82.6	5.9	38.5	3.6	13.2	0.3	3.0	2.9	2.8	1.6	0.7	1.4	0.0
8	Misc. manufactures	100.0	47.4	17.6	17.3	10.6	41.5	0.9	1.1	29.8	25.6	3.7	4.8	4.7	5.1
81	Sanitary, plumbing, heating, lighting	100.0	63.9	53.1	7.9	2.4	26.7	0.1	0.1	20.9	20.6	2.5	5.4	6.5	2.0
82	Furniture	100.0	49.0	38.0	6.8	1.5	21.4	0.2	0.7	12.2	11.9	0.5	8.4	2.6	2.6
83	Travel goods, hand bags etc.	100.0	5.2	1.9	1.4	1.5	71.1	0.3	1.0	65.6	61.1	2.1	4.3	5.1	17.8
84	Clothing	100.0	10.3	6.4	1.4	0.8	74.5	2.2	0.9	46.7	36.9	9.9	25.4	6.8	6.9
85	Footwear	100.0	15.5	10.9	3.8	0.2	70.1	0.0	8.7	52.3	49.0	0.2	9.0	6.9	6.9
87	Professional, scientific instruments	100.0	89.8	16.7	35.7	16.4	7.1	0.3	0.4	4.2	3.7	1.4	0.9	0.9	0.3
88	Photographic apparatus	100.0	79.0	23.2	20.3	34.8	17.3	0.5	0.3	15.9	15.6	0.2	0.9	0.7	1.8
89	Mis n.e.s.	100.0	62.2	23.2	23.3	13.4	28.4	0.2	0.9	26.0	23.6	0.6	1.2	2.0	5.9
	All manufactures	100.0	67.9	37.0	27.7	17.5	22.8	1.0	2.8	14.8	12.7	2.2	5.9	3.9	2.0

a) Includes 68 African, Carribean and Pacific Countries.

b) Includes S. Korea, Taiwan Province of China, Hong Kong, Singapore, Malaysia, Philippines, Indonesia and Thailand.

c) Includes S Korea, Taiwan Province of China, Hong Kong and Singapore

d) Includes Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia, Bahrain, Oman, Qatar, Cyprus, Malta, Turkey and Yugoslavia

e) Moroccco, Tunisia, Algeria, Egypt, Syria, Lebanon, Yugoslavia, Turkey, Malta, Cyprus, Jordan. Israel not included.

Source: UNCTAD data bank

Table 3

Relative importance of intra-and extra-EEC Trade, 1988

STIC	TOTAL EXTRA & INTRA EEC IMPORT = 100		EEC (12) NET TRADE SURPLUS/DEFICIT WITH REST OF THE WORLD (a). VALUE IN MIO. ECU
	INTRA-EEC (12) %	EXTRA-EEC (12) %	
0,1 FOOD BEVERAGES & TOBACCO	66.0	34.0	-8575
2,4, (b) RAW MATERIALS	38.0	62.0	-28429
3 FUEL	28.0	72.0	-39136
5 TO 8 MANUFACTURED GOODS	64.0	36.0	+59139

a) Extra - EEC Exports minus Extra - EEC imports

b) SITC 68 is not included

SOURCE: Compiled from Eurostat (1990), External Trade Statistical Year Book 1989, statistical office of the European Communities Luxembourg

Table 4

Net Trade Effect of 1992 Upon Manufactured Exports of Developing Countries

	EEC INCOME ELASTICITY OF IMPORTS FROM DEVELOPING COUNTRIES (a)	TRADE CREATION WITH VAVIOUS GROWTH SCENARIOS COMMISSION ESTIMATE 5% (b)	PESSIMISTIC ESTIMATE 2.5% (b)	OPTIMISTIC ESTIMATE 10% (b)	TRADE DIVERSION	NET TRADE CREATION WITH VARIOUS GROWTH SCENARIOS 5%	2.5%	10%
CHEMICAL	4.6	23.0	11.5	46	-12.9	10.1	-1.4	33.1
LEATHER	3.7	18.5	9.2	37	-7.9	10.6	1.3	29.1
RUBBER	5.9	29.5	14.7	59	-13.1	16.4	1.6	45.9
PAPER & PAPERBOARD	7.4	37.0	18.5	74	-9.5	29.6	9.0	64.5
CLOTHING/TEXTILE	2.5	12.5	6.2	25	-7.1	5.4	-0.9	17.9
MANUFACTURING OF METAL	3.4	17.0	8.5	34	-16.0	1.0	-7.5	18.0
FURNITURE	4.9	24.5	12.2	49	-12.0	12.5	0.2	37.0
OFFICE & DATA PROCESSING INDUSTRY	13.5	67.5	33.7	135	-8.8	58.7	24.9	126.2
ELECTRICAL MACHINERY	7.7	38.5	19.2	77	-11.8	26.7	7.4	65.2
MOTOR VEHICLE	5.7	28.5	14.2	57	-11.2	17.3	3.0	45.8
MANUFACTURING SECTION	3.5	17.5	8.7	35	-10.0	7.5	-1.3	25.0

a) The data on income elasticity are based on the EEC import demand function for manufactures from developing countries, (1979 -1988)

$$MM_{RJ} = ao + a_1 \text{ Log } Y_R + a_2 \text{ Log } (PM_J/P_d) + a_3 \text{ Log } (P_i/P_d)$$

MM_{RJ} = EEC manufactured imports from developing countries at SiTc 1 and 2 digit level in US million dollar deflated with EEC import price index at siTc 1 and 2 digit level (1985 = 100)

Y_R = G.D.P of EEC 12 in prices and exchange rates of 1985
P_d = G.D.P deflator for EEC (1985 + 100)
PM_J = EEC import price index as regard to manufactured exports of Developing Countries at siTc 1 and siTc 2 digit level (1985 = 100)
Pi_J = Intra - EEC index price for manufactures at one digit level (1985 =100)

Similar model of import demand function has been employed by R. J. Langhammer, Fuelling a New Engine of Growth or Separating Europe From Non-Europe, Journal of Common Market Studies.: No. 2 December 1990

SOURCE: Data on income elasticity are based on UNCTAD data bank. Data on Trade diversion are calculated from, Commission of the European Communities (1988), the 'Economics of 1992' European Economy, No 35, March. Appendix a Table A5 and A6

Table 5

Export share of various groupings of developing countries in EEC market 1988
(All Developing Countries = 100)

SITC	0.1 FOOD, BEVERAGES AND TOBACCO	2, 4, 68 RAW MATERIALS	3 MINERAL FUELS	5-8 ALL MANUFACTURES
ACP (a)	24.3	25.5	11.6	4.4
LATIN AMERICA	48.2	36.9	7.9	12.3
SOUTH OF SOUTH EAST ASIA (b)	15.7	24.0	0	64.9
THE EAST-ASIAN FOUR (c)	12.5	20.0	0	55.7
WEST ASIA (d)	5.4	5.5	44.0	9.6
MEDITERRANEAN DEVELOPING COUNTRIES (e)	11.2	12.0	20.9	25.8

a) See (a) in Table 2
b) See (b) in Table 2
c) See (c) in Table 2
d) See (d) in Table 2
e) See (e) in Table 2

SOURCE: Compiled from Table 2.

Table 6

Share of different Grouping of Countries
in EFTA. Trade 1988

	EFTA	EEC	USA	JAPAN	OECD INCL EFTA	DEVELOPING COUNTIRES	EASTERN EUROPE	TOTAL US DOLLARS
IMPORTS; FROM	13.1	61.3	5.8	5.6	86.1	9.4	4.5	184.5
EXPORTS; TO	14.1	55.9	7.4	2.5	82.5	12.1	5.4	177.3

Share of different groupings of Countries
in EEC Trade 1988

IMPORT; FROM	9.7	58.1	7.3	4.5	83.8	12.5	2.7	1070.4
EXPORTS; TO	10.6	59.5	7.9	1.8	84	12.5	2.3	1052.9

SOURCE: Compiled from; EFTA Trade 1988,European Free Trade Association Economic Affairs Department, December 1989 , Geneva; Eurostat, External Trade Statistical year book 1989, office for official Publications of the European Communities, Bruxelles, Luxembourg 1990; UNCTAD Handbook of international Trade and Development Statistics 1989. UN, 1990

Table 7

Composition of EEC(12) imports from EFTA

SITC	Product groups	1980	1988
0,1	Food, beverages and tabacco	2.84	3.25
2,4,68	Raw materials	15.45	11.94
3	Mineral fuels	12.53	8.02
5	Chemicals	7.49	10.29
6	Manufactures classified by materials	28.22	26.76
64	Paper and paper board	7.79	10.41
65	Textiles	2.57	2.79
66	Non-metallic minerals	8.66	1.52
67	Iron and steel	4.69	4.66
69	Manufactures of metal n.e.s	2.60	2.71
7	Machinary and transport equipment	19.76	26.39
71	Powergenerating machinary	1.16	2.64
72	Machier for especial industry	3.31	4.29
73	Metal working machinary	1.32	1.48
74	General industrial machinary	3.90	4.43
76	Telecom, recording equipment	1.45	2.03
77	Electrical machinery n.e.s	3.09	4.28
78,79	Transport equipment	4.48	5.32
8	Miscellaneous manufactures	8.69	10.12
84	Clothing	1.33	1.18
87	Professional, scientific equipment	1.48	1.87
88	Photographic equipment	1.45	1.54
89	Misc. manufactures n.e.s	2.78	3.83
9	Special transactions	5.01	3.24
Total		100.00	100.00
Total in million dollars		67884	106410

Source: Computed by UNCTAD Secretariat

Table 8

Extra-EC Imports

	IMPORT SHARE (O/O)		
	1970	1980	1988
BY ORIGIN			
WESTERN INDUSTRIALIZED COUNTRIES	54.5	46.0	62.1
DEVELOPING COUNTRIES OF WHICH:	38.0	46.0	30.0
ACP	8.9	7.3	4.5
MED COUNTRIES (12)	9.4	8.3	7.8
NIC'S (4)	1.5	3.5	6.4
OTHER ASIA	1.7	2.5	3.1
LATIN AMERICA	8.0	5.8	5.9
OPEC	16.3	27.2	8.2

SOURCE: Compiled from Eurostat (1990), External Trade Statistical Yearbook, 1989, Statistical office of the European Communities, Luxembourg

Extra Central and Eastern European (C. and E.E.) imports 0/ (USSR not incl.) Table · 9 ·

by major product groups and origin 1988 (percentage)

Imports from → SITC (Rev. 3)	Value of imp. bil. USD	Total	Developed Market Econom. 2/4/5/	Developing Countries: Total 4/5/	OPEC 6/	Africa	America	LAIA 9/	Middle East	Other Asia	Oceania	C. and E.E. and USSR 2/3	USSR 3/	Centrally Planned Econ. of Asia 1/
0-9 Total trade	108,7	100	17,2	7,6	2,3	1,4	2,1	1,3	1,6	0,9	0,01	73,0	49,7	2,2
0,1 Food, bever, tobacco	5,9	100	27,1	42,4	1,7	1,7	31,0	16,9	3,4	3,4	·	23,7	5,1	6,8
041-045 Cereals	0,96	100	62,5	20,8	·	·	10,0	·	·	10,0	·	10,4	·	6,3
2,4,68 Raw materials	7,8	100	23,1	20,2	1,3	5,7	3,9	3,7	2,6	3,8	0,1	51,3	39,7	5·2
26 Textile fibres	1·88	100	21,3	21,3	0·3	8·0	5·3	2·1	10·6	1·1	·	55·9	47·9	0
3 Mineral fuels	29·6	100	1·0	6·4	5·7	2,4	0·3	0	4·1	0	·	91·9	88·5	0·7
5 Chemicals	7·5	100	46·7	5·3	·	1·3	0·3	·	0	·	·	45·3	18·7	2,7
6,8 Other manuf. goods	16·9	100	28·8	8·8	0·2	1·2	1·2	1·2	0·6	2·4	·	57·3	23·7	5,1
65 Text. yarn and fabr.	2·3	100	47·8	17·4	·	4·3	0·9	0·9	1·7	4·3	0	26·1	·	8·7
67 Iron and steel	4·6	100	15·2	2·2	·	·	0,6	0·4	·	0·2	·	82·6	60·1	3·5
68 Non-ferrous metals	0·86	100	30·2	31·4	·	·	·	·	·	·	·	34·8	30·0	3·6
7 Machinery and transport equipment	31·3	100	21·7	2·2	0	0	·	·	·	·	·	75·7	30·0	0·4
781·2, 784·1, 785·1, 785·2 and 785·31 Passenger road vek. and their parts	1·1	100	18·2	·	·	·	·	·	·	·	·	81·8	45·5	·
84 Clothing	1·2	100	16·7	25·0	·	·	·	·	·	·	·	25·0	·	33·3

For the notes and source see the List of notes incl.

St .6-1396-66-Z

Source: U N Monthly Bulletin; information elaborated by Mrs Judita Stouracova

Table 10

Percentage shares of Latin America's exports to Central and Eastern Europe, by commodity composition, 1980-1988

SITC		1980	1985	1988
Total		100.0	100.0	100.0
0+1	Food, beverage and tobacco	64.0	60.0	79.0
2+4	Raw materials	25.0	19.0	12.0
3	Fuels	0.1	5.1	1.4
5	Chemicals	1.0	1.8	1.0
6+8	Other manufactured goods	12.1	10.3	6.5
7	Machinery and transport equipment	0.1	4.2	0.3

Source: Based on Brabant op. cit., from CMEA and UN sources.

Table 11

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	Czchoslovakia	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.

Table 12

Cumulative inflow of foreign investment, in selected Central and Eastern European countries, 1988-1990

(number of companies and million dollars)

	1.1.1988		1.1.1989		1.10.1990		31.12.1990	
	number	mil. US$	number	mil. US$	number	mil. US$	number	mil. US$
Poland	13	4.4	55	12.6	1950	190.0[1]	2.400[6]	320.0
Romania	5		5		145	21.0[2]		
CSFR	7		16		1168	190.7[3]	2.864	378.0[7]
Hungary	102	95.8	270	289.0	2300	700.0[4]	more than 5.000	1.200.0
Bulgaria	15		25	18.0	70			
memo item: Soviet Union	23	89.3	191	505.9	2051	2240.0[5]		

Sources: Die Weltwirtschaft, Vienna, 1990/2 p.131.

[1] End March 1990
[2] End July 1990
[3] December 1990
[4] End January 1990
[5] 1 March 1990
[6] Number of registered joint ventures, of which only 954 were active
[7] 17 April 1991. Source: Information provided by I Kocarnik, CSFR Deputy Minister of Finance

Table 13

Participation of investing countries in FDI in selected countries of Central and Eastern Europe in 1990 (%)

Country of origin	Poland[1]	Romania[2]	CSFR[3]
Germany	41.1	19.9	28.3
USA	6.6	7.4	4.2
France	4.7	14.0	2.3
Italy	3.9	18.4	3.9
Netherlands	4.1	n.a.	2.9
Austria	6.6	6.6	29.8
Sweden	9.1	2.9	n.a.
Switzerland	3.2	2.9	8.0
United Kingdom	4.9	3.7	3.0
Japan	0.01	1.5	n.a.

Source: Die Weltwirschaft, Vienna, 1990/2, p.133.

[1] End March 1990
[2] End September 1990
[3] December 1990

* * * * * * * * * * *

Table 14

Sectoral Distribution of Joint Venture Investments

Sector	CSFR	Hungary	Poland
Manufacturing	27.8	46.0	73.3
Agriculture	9.7	1.5	4.1
Finance	--	1.7	0.3
Construction	6.9	7.2	4.5
Health and Culture	2.8	3.6	2.5
Hotel and restaurant	20.8	0.9	3.2
Transport	1.4	5.8	2.5
Trade	5.6	15.8	3.2
Business services	4.2	16.2	5.2
Other	8.3	1.2	1.2

Source: C. McMillan "Foreign Direct Investment Flows to Eastern Europe and their Implications for Developing Countries", prepared for UNCDP (CDP/127/APR/N), April 1991.

BOX 1

THE SINGLE EUROPEAN MARKET AND BANANA EXPORTS OF DEVELOPING COUNTRIES

Presently half of the community's consumption of bananas is supplied by ACP countries and the French overseas department of Guadeloupe and Martinique, while the other half consists of "dollar2 bananas, mostly from Latin America. The latter are imported primarily by member States which do not have quantitative restrictions favouring specific ACP countries. At present, three EEC member States limit banana imports through quantitative restrictions specifying the origin of the product. The United Kingdom has been providing a guaranteed market for unlimited quantities of bananas from the English-speaking Caribbean and Suriname. France provides similar guarantees for the French overseas department, Cameroon and Cote d'Ivoire, and Italy reserves a share of its market for Somalia. For a number of these developing countries, bananas constitute a substantial share of total merchandise exports - 50 per cent of Guadeloupe and Martinique, 40 percent in Saint Vincent and the Grenadines, and 20 per cent in Somalia - with the Community accounting for 90 - 100 per cent of their banana exports.

Although these producers enjoy a 20 per cent tariff preference over producers of dollar bananas in all EEC countries except the Federal Republic of Germany, it is unlikely that they could compete without a guaranteed market. Latin American producers already dominate the markets of countries other than France, Italy and the United Kingdom. Most of the ACP producers are small-scale and relatively inefficient, and their costs are considerably higher than those of the large plantations of

Central America, Colombia and Ecuador. The banana trade in Latin America is dominated by large united States corporations with efficient marketing and distribution facilities.

Under the Lome IV Convention the Commission has repeated commitments to maintain preferential access for traditional suppliers, but with the removal of national quantitative restrictions after 1992, the current preference margin is unlikely to be adequate to sustain their exports. One solution to the dilemma would be helping the ACP producers to raise productive efficiency and improve infrastructural facilities. Other solutions include direct compensation, an EEC subsidy to ACP producers, or assistance to diversity out of bananas, perhaps accompanied by a gradual unwinding of protection.

Source: M. Davenport and S. Page, op. cit., pp.25-27; and "The Lome IV Convention", The Courier (Brussels), No. 120, March-April 1990.

BOX 2

IMPACT OF THE TRADE LIBERALISATION ACP PRODUCERS OF SUGAR

Under the sugar protocol in the Annex to the Lome Convention several ACP countries and India as a non-member export a set of specified quota of sugar into the EEC at internal EEC prices. Sugar protocol depends on the maintenance of a genuine demand for cane sugar in the EEC market. Unlike the European continent where sugar is manufactured from sugar beet the British sugar industry is highly dependent on cane sugar imports from its

former colonies. Most ACP cane sugar is refined by the firm Tate and Lyle which dominates the British sugar industry. However with growing surplus supply of sugar in the EEC the maintenance of a market for cane sugar is a delicate operation. Although there is nothing to prevent sugar from continental Europe being marketed in the U.K. nevertheless a combination of border formalities and cross - channel trans-shipment costs has kept such trade to a low level. However with the completion of the Channel Tunnel after 1993 as well as with the removal of border formalities it will be much simpler and cheaper to move sugar from continental Europe into the U.K. This could set off a battle for market share that would drive cane sugar out of the market since ACP cane producers would not be able to compete with continental producers of beet sugar. Another factor which would adversely affect ACP and Indian producers of cane sugar is related to the implementation of common agricultural policy (CAP) reform in the EEC. At present the ACP producers can as a rule obtain a preferential price for their deliveries within the quota well in excess of the world market price. This largely reflects CAP policies of decoupling EEC internal prices from the world market prices. However dismantling the sugar price regime under CAP would imply severe domestic EEC and hence ACP price reductions. This would adversely affect the income of ACP producers from exports of cane sugar and might lead to discontinuation of production by the ACP states.

Source: A. Mathews and D. McAleese, LDC primary Exports to the EC: Prospects Post - 1992, Journal of Common Market Studies, December 1990, No. 2 , pp. 157 -180.: C. Stevens, the Impact of Europe 1992 on the Maghreb and sub - Saharan Africa , IbId

pp. 217 - 242; T. Koch, The Sugar Protocol: An Appraisal, Intereconomics, November/ December 1989.