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

by

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A. Policy Developments in Europe

The transformation of the EEC into a true common market within which goods, services and factors of production are able to move freely is on course. Negotiations between EEC and EFTA countries on the formation of a European Economic Area (EEA) are in their final stages. At present, EFTA and the EEC constitute a free trade area in manufactured goods. The free trade agreement entered into by EFTA and EEC in 1973 has already significantly reduced tariffs and has abolished most quantitative restrictions on trade in manufactures between the two groups of countries. Although the precise contents of the EEA agreement are not yet settled, its objective is to extend the provisions of the Single European Market (SEM) to EFTA countries by ensuring the free movement of goods, services, persons and capital throughout the EEC and EFTA countries. It is envisaged that the EEA will come into being at the same time as the completion of the Single European Market (1 January 1993).

The EEA agreement is expected to bring major benefits to EFTA countries. The extension of the current EFTA-EEC free trade agreement to cover measures other than tariffs and quotas (e.g. the harmonisation of technical standards and competition policies and the liberalisation of public procurement), essentially on the basis of EEC norms, will prevent the erosion of the competitiveness of EFTA firms in the EEC which would otherwise result from the 1992 programme. Moreover, the EEA will give service companies from EFTA countries access to the EEC market. However, it is becoming increasingly evident that the creation of an EEA would involve a considerable loss of autonomy for EFTA countries without providing them with the full benefits of being part of the EEC and being able to influence the evolution of EEC-wide policies. Partly for this reason, Austria and Sweden have applied for membership in EEC and other countries may follow suit in the near future.

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

B. Impacts on Developing Countries

These developments suggest that, during the 1990s, an essentially integrated market covering a large portion of Europe will emerge, with enormous consequences for the rest of the world. The trade of developing countries with Europe is bound to be affected, and groups of developing countries will be affected in different ways, depending not only on the composition of their exports to Europe but also on the position they are able to negotiate within Europe's scale of preferences.

Most of the short- and medium-term effects on developing countries of these changes will be the result of the growth of demand and the evolution of market access conditions in the EEC. The expansion of the 1992 programme to EFTA countries will have lesser consequences for non-European trading partners because it involves a much smaller market than the EEC (see Table 1). The EEC market is crucial for both EFTA and EEC countries (it absorbs 60 per cent of EEC exports and over 55 per cent of the EFTA countries' exports); on the other hand, the EFTA countries constitute a relatively marginal market not only for EEC but also for their own exports. The effects of European integration on eastern Europe will be of a long-term nature, largely because the current economic dislocation in these countries rules out any significant increases in imports. Special trading relationships with western European countries could, in the long run, contribute to recovery in eastern Europe and, to the extent that this is so, demand for tropical beverages, raw materials, simple manufactures and capital equipment will rise. If trade policies towards non-European partners remain open, developing countries could eventually be in a good position to increase their exports to eastern Europe.

Table 1

Share of trading partners in EFTA and EEC trade, 1988

	EFTA trade		EEC trade	
	Imports from	Exports to	Imports from	Exports to
EC	61.3	55.9	58.1	59.5
EFTA	13.1	14.1	9.7	10.6
United States	5.8	7.4	7.3	7.9
Japan	5.6	2.5	4.5	1.8
Other developed	0.3	2.6	5.2	5.4
Developing countries	9.4	12.1	12.5	12.5
Eastern Europe	4.5	5.4	2.7	2.3
Total	100.0	100.0	100.0	100.0
Total (US$ billion)	184.5	177.3	1070.4	1052.9

Sources: Compiled from EFTA _Trade 1988_, December 1989, Geneva; _Eurostat_, 1989; UNCTAD _Handbook of International Trade and Development Statistics_, 1989.

Much of the current interest in European integration focuses on the completion of the Single European Market. The SEM is expected to have fairly quick impacts on developing countries. In fact, many of the effects may have already occurred.[1] Most of the EEC Commission's proposals to the Council for new EEC law or modifications to existing law have already been adopted, and business firms within the Community have already taken action in anticipation of 1992. One sure sign is the wave of mergers and take-overs, many for the purpose of rationalisation, which has swept Europe since the launching of the SEM programme in 1985. There has also been a sharp increase in domestic and foreign investment in the EEC, partly induced by the SEM. These trends will continue, maybe faster, maybe slower. Other impacts will be of a longer-term nature and will depend, inter-alia, on how trade policies in Europe evolve in response to adjustment pressures.

The SEM is expected to have trade creating and trade diverting effects on developing countries.[2] Increases in income in the Community as a result of the SEM will raise demand for imports from developing countries. These are the trade creation effects. On the other hand, the essence of the programme is to reduce costs within the Community by increasing competition (e.g. through the opening up of public procurement) and by reducing existing national barriers to trade such as border controls or eliminating differences in technical standards. In the longer run, the creation of a unified market is also expected to induce significant economies of scale. The lower costs of producing in the Community would shift demand away from imports and towards EEC producers. These are the trade diversion effects.

One of the impacts of the SEM may be a higher rate of investment and an intensified flow of innovations, new processes and new products; if this were so, the completion of the internal market would lead to an increase not merely in the level but also in the rate of growth of EEC income.[3] In this case, both trade creation and trade diversion effects would be commensurably greater. The magnitude of such effects is, however, difficult to estimate.

In primary commodities, the Community is a net importer of most non-food products or, in the case of agriculture, protects its domestic production through the Common Agricultural Policy. Therefore, cost decreases in these sectors are likely to be negligible and no trade diversion effects are likely to arise from the 1992 programme. On the other hand, the demand for primary commodities exported by developing countries will rise together with EEC incomes, although at a slower pace, since the income elasticity of demand for most raw materials is lower than unity. The exception is petroleum, a commodity for which the income elasticity of demand is relatively high.

Although efficiency gains are likely to be significant in several service industries, they will have little impact on developing countries, since the latter are not large exporters of services (except for tourism) to EEC. In manufactures, the trade diversion effects on exports from developing countries could be significant. Within manufacturing, the sectors which will probably experience the strongest gains in efficiency from the SEM are those which are particularly affected by the current segmentation of the EEC into national markets. These are office equipment, electrical goods, motor vehicles, telecommunication equipment, chemicals and pharmaceuticals and engineering goods. These sectors are also likely to have the largest potential for economies of scale. The scope for efficiency gains are more modest in traditional sectors which account for the bulk of developing country exports of manufactures (e.g. textiles, clothing, footwear, leather, iron and steel, cork products). Some of these sectors have already undergone severe processes of structural adjustment in the Community. Moreover, access to the EEC market is tightly controlled, by the MFA in the case of textiles and clothing and by VERs in the case of iron and steel. The evolution of imports into EEC in these sectors will depend more on the results of the Uruguay Round than on the effects of the SEM. In particular, the effective phasing out of the MFA would have considerably more powerful effects on developing country exports than the SEM.

At the same time, trade creation effects will also be significant in manufacturing, since income elasticities of demand are, on average, higher than for primary commodities. Both the income elasticities and trade diversion impacts are positively correlated with the degree of technological sophistication of the sectors involved.

In order to estimate the net trade creation effects on different groups of developing countries, it was assumed that the SEM would cause EEC incomes to increase by 5 per cent, which is roughly the mid-point of the range estimated by the Community itself (4.3 to 6.4 per cent).[4] In addition, income elasticities of demand for imports from developing countries were calculated.[5] and sectoral trade diversion effects as estimated by the Community were used (see table 2 for a selection of results). Since the effects of the 1992 programme are likely to have begun to be felt around 1988-1989, net trade creation is estimated on the basis of 1988 exports of developing countries to EEC.

For developing countries as a whole, the SEM could induce an increase in exports to EEC of about $10 billion, or 7 per cent of their exports in 1988 (see Table 3). The countries which are likely to gain most are the oil exporters of West Asia and Northern Africa and the economies of South-East Asia, which export predominantly manufactures and are the Community's major developing country suppliers of high-technology manufactures. The estimated net trade creation for ACP and Latin American countries is estimated as considerably more modest as a proportion of their current exports to EEC.

The aggregate numbers, which in absolute value may appear large, need to be placed in perspective. During the period 1985-1989, developing country exports to EEC grew at an average annual rate of 8 per cent in volume terms. Therefore, the estimated 7 per cent boost to developing country exports resulting from the SEM represents an average of about one year's worth of growth, and considerably less than the year of peak export growth during the past decade (10 per cent in 1988).

The SEM may have other favourable but less measurable effects. The terms of trade of primary commodity exporters are likely to improve as a consequence of the programme. This is because the demand for primary commodities will rise together with EEC incomes and, other

Table 2

Net trade creation effects of the SEM on the exports of developing countries in selected sectors (Percentage of 1988 exports to EEC)

Sectors	Income elasticity of EEC imports from developing countries	Trade creation effects	Trade diversion effects	Net trade creation effects
Food, beverages and tobacco	1.1	5.5	-	5.5
Non-fuel raw materials	0.6	3.0	-	3.0
Fuels	1.9	9.5	-	9.5
Manufactures	3.5	17.5	-10.0	7.5
Chemicals	4.6	23.0	-12.9	10.1
Leather and footwear	3.7	18.5	-7.9	10.6
Rubber	5.9	29.5	-13.1	16.4
Paper and paperboard	7.4	37.0	-9.5	27.5
Textiles and clothing	2.5	12.5	-7.1	5.4
Metal manufactures	3.4	17.0	-16.0	1.0
Furniture	4.9	24.5	-12.0	12.5
Office & data processing equipment	9.5	47.5	-8.8	38.7
Electrical machinery	7.7	28.5	-11.2	17.3
Motor vehicles	5.7	28.5	-11.2	17.3

Source: UNCTAD secretariat, based on official international data; trade diversion effects from EEC Commission, "The Economics of 1992", European Economy, No.35, March 1988, Appendix tables A5 and A6.

Table 3

Net trade creation effects of the SEM on developing country exports (million of US dollars)

	Primary commodities	Fuels	Manufactures	Total	As percentage of 1988 exports to EEC
All developing countries a/	1,923	3,306	4,920	10,149	6.9
ACP	491	443	85	1,019	5.2
Mediterranean b/	225	694	754	1,673	6.4
South-East Asia c/	266	-	2,587	2,853	6.8
Latin America	894	261	404	1,559	5.4
West Asia d/	24	1,346	177	1,547	9.1

Source: UNCTAD secretariat, based on official international data.

a/ Totals include countries not listed.
b/ Algeria, Cyprus, Egypt, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey, Yugoslavia.
c/ Hong Kong, Indonesia, Malaysia, Philippines, Republic of Korea, Singapore, Taiwan Province of China, Thailand.
d/ Bahrain, Islamic Republic of Iran, Iraq, Kuwait, Oman, Saudi Arabia.

things being equal, primary commodity prices will be higher; at the same time, the prices of manufactures exported by the EEC will decline. Moreover, the elimination of national quotas for textile and clothing imports (even if they are replaced by their equivalents at the EEC level) would result in a greater utilisation of MFA quotas by exporting countries which at present are being constrained by the application of national quotas. Excise taxes on tropical beverages will also be harmonised and reduced, and this will have a positive effect on developing countries. These positive impacts have not been included in the estimates shown in Table 3.

On the other hand, the trade diversion effects of the SEM could have also been underestimated. The impact of economies of scale has not been factored into the trade diversion effects. If there are important economies of scale to be reaped, their effects on the competitiveness of EEC firms could be considerable, and the displacement of supplies from outside the Community could be much larger than assumed here. Also, there is no way of taking into account the trade diversion effects of the incorporation of Spain and Portugal into the Community. The 1992 programme is being implemented in conjunction with the integration to EEC of the Iberian countries, which will be passing through the stages of free trade area, customs union and common market more rapidly than the older EEC members. And Spain and Portugal are in more direct competition with imports from developing countries than the other Community countries.[6] Hence, the potential for trade diversion is large.

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

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

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

It is not clear how these restrictions will be handled in the post-1992 EEC. The optimal solution would be their elimination, but that outcome is far from certain, particularly in the current trading environment. In this connection, recent resort to increased Community-wide VERS in sector experiencing adjustment assistance and the upsurge of anti-dumping actions are a cause for serious concern. GATT notes that the EEC ranks amongst the most intensive users of anti-dumping measures world-wide.[8] The temptation to use VERS and anti-dumping action at the Community level to pass on to trading partners the costs of adjustment to the SEM should be strongly resisted.

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

The extension of the SEM to EFTA countries could have some trade diversion impacts on developing countries, since an EEA agreement would extend the cost-reducing benefits of the programme to EFTA producers of manufactures. Any trade diversion that does take place will fall mostly on non-European developed countries, which are EFTA's major competitors in the EEC. The exports to the EEC of only a few developing countries overlap with those of EFTA. Sectors where there could be trade-displacing effects for developing countries are iron and steel, metal manufactures and electrical machinery. However, these effects are likely to be small. As regards trade creation in EFTA itself, even if incomes in EFTA are given a boost by European integration, the small size of the EFTA market suggests that the positive trade impact on developing countries will not be of great consequence.

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

No comprehensive assessment of the impact of the recent trade liberalisation measures in favour of Eastern European countries is presently available. Preliminary estimates show meaningful although small gains. It is estimated that the EEC'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 EEC'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 EEC in the first half of 1990 to the European Community's liberalisation of trade.[10]

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

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

A first approximation to this issue ranks (in Table 4) countries according to their similarity in their export structure to the EEC, with the export structure of the countries of C and EE to the EEC. It is reassuring to see that the countries of C and EE compete in the EEC markets mainly with each other. With developing countries they overlap much less, and they mainly do so with the Asian NICs and with China. The only Latin American country, where there is a relatively significant overlap with C and EE exports, to the EEC, is the case of Brazil (which is the only LDC for which Czechoslovakia is an important competitor, and which has amongst its competitors also Poland, Hungary, Romania and the USSR).

To offer more specific information, we examined the 46 most important products imported by the EEC (at levels above US$ 70m) from C and EE and their main LDC competitors in 1989. Brazil emerges again as the country that has most to fear from potential competition, in 10 items (which include motor cars, flat-rolled products of iron, unwrought aluminium, cyclic hydrocarbons, chemical wood pulp, footwear, semi-finished products of iron and steel, pig iron and ball bearings). Perhaps predictably the other LDCs which appear to compete most are

Table 4

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

Index Values

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

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

0 implies completely different structures and 100 completely identical ones.

in Turkey (in 6 products), Taiwan (5 products), South Korea (4 products) and Hong Kong (4 products). Far less affected were other developing countries, with Mexico having to compete only with 2 products for example, semi-finished products of iron and steel and polymers of chloride).

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

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

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

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

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

To the extent that, however, the countries of C and EE start to increase their industrial output, they will demand more raw materials, an important part of which would come from developing countries. Furthermore, if we assume that the process of C and EE reform will be accompanied by important industrial and other restructuring, then it seems likely that there will be an important increase 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 and other developing countries will benefit in a major way directly from such opportunities, (if important efforts are made, some benefits may arise in specific sectors), they may well significantly benefit indirectly from such a trend, due to increased demand (and higher prices than would have otherwise occurred) for their raw materials, (e.g. copper, aluminium, etc) which are used for machinery, transport equipment and telecommunications. These indirect potential benefits from increased investment in C and EE could even be the most important effect on LDC (and Latin American) trade flows of changes in C and EE.

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

C. 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 form a 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.

As regards trade diversion effects resulting from the creation of the SEM, it would seem desirable for LDC's (or for organisations concerned with their access to trade) to attempt to evaluate, ex-post, the magnitude of those effects; this could serve as a basis for evaluating possible comensation by the EEC for such trade diversion.

There seems to be a genuine concern that the international trading system will become increasingly dominated by co-operation among a group of three participants, the greater Europe, USA and Japan. A clear example of how the EEC has begun to use its increased power is reflected in its demands for "reciprocity" (from developing and developed market 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. Furthermore, developing countries must point to the fact that the institutional changes resulting from the SEM and greater Europe, as well as the growth of non-tariff barriers (particularly in the EEC) are posing new forms of protectionist risk to them; they should request that these trends are compensated for or abolished. While this does not occur, any EEC demand for reciprocity does not seem at all justified.[11]

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[12] in this context, that, for instance, Australia, the country with the highest level of protection amongst OECD countries, has retained higher tariff levels than desired in order to use it as a bargaining lever to open access to agricultural markets. One concrete way in which the approach to 1992 has intensified de facto protectionism by the European Community is via the increased use of anti-dumping actions, which the Community is able to take without going through national legislation or attracting much public attention. It is important that developing countries are aware of the range of actions they can take to fight such limitations on their market access, and undertake those best suited for them.

The first response to actions such as anti-dumping is to support strongly the discussion and clarification of this issue at a general level in the GATT, further strengthening the group led by Hong Kong. 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.

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.[13] Effective lobbying can either focus on how protection could damage the exporting country (or particular groups - e.g. the poor - within it) and/or can target consumer interests (and its organisations) by showing how protection could harm EEC consumers, via higher prices. Lobbying of this kind requires having professional lobbyists based in Brussels and Geneva, as well as making more active use of Embassy staff for these and related purposes. Important lessons can be learnt in the trade field from Japanese and ASEAN lobbying experiences; the use of lobbying as a means of achieving policy objectives is also well developed in the US, where former senior policy-makers (with good access to politicians) are hired for such purposes.

A third possibility implies actions using parallel issues (via either persuasion or threat) of roughly an equivalent magnitude. The type of counter-pressure actions that can be undertaken are: threat to ban imports of an EEC influential company, (which will then lobby on the 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 action. For example, Thailand is reported in the early 1980s to have been faced with the possibility of a restriction of its EEC quota for manioca, one of its important exports; it threatened to reduce immediately their imports by the same amount of the additional limitation that its exports would have faced. As a result of this threat, the EEC withdrew the quota reduction immediately. Similar tactics were used by Indonesia and Malaysia, to block restraints on their exports. It is reported that some countries, like Thailand, even use approval or renewal of key licenses for foreign investors in their countries to ask for concessions in exchange, which in some cases implies requests to lobby on behalf of the country in trade matters.[14]

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

It is important to emphasise, either for potential anti-dumping actions by LDCs or to help combat such practices, that EEC anti-dumping actions are based on rather strange calculations; Davenport,[15] reports that 94 per cent of the cases against LDCs were investigated on the basis of "constructed prices", rather than estimating the cost of production, as is implied by the GATT rules. Furthermore, the onus of proof is on the exporter to demonstrate that the injury was caused by other factors. This procedure makes anti-dumping easy to prove.

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

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

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

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

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

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

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

The Single European Market provides not only changes in trade flows but potentially in financial flows, including aid. The changes in C and EE are leading to an important increase in EEC aid to that region; 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 a change which seems logical in the context of 1990s, that aid tied to purchases in the donor country to be replaced by aid tied to purchases in the whole Community. As Stevens[16] 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 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. 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 countries, it could benefit some of the smaller and poorer one. Particularly for the latter, 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.

D. Specific policy options in the context of 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 or the Free Trade arrangements which were 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. There is a strong possibility that most EFTA Countries as early as 1995 may have joined the EEC either together or separately. 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 special attention. Firstly, "grouping" on a regional basis or an issue-specific alliance among developing countries might have a better chance of increasing their bargaining power on trade policy issues than bilateral negotiation between an individual developing country and a powerful trading bloc such as the EEC. Secondly, regionalism or any issue specific alliance by developing countries should be used as a bargaining tactic for strengthening multilateral trade liberalisation rather than as a defensive or aggressive policy of block building and protectionism.

Regional agreements can take different forms. They can be arrangements amongst developing countries such as the Andean Common market (ACM) the Association of South East Asian Nations (ASEAN), the Caribbean Community (CARICOM), and the Southern and East African preferential trade area (PTA). 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 know 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 situation is changing, however, for the better The Andean Pact has for example, 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 the Bush Initiative for the Americas. 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 bloc with its Northern as well as Southern neighbours. Moreover four more Latin American countries Chile, Ecuador, Colombia and Bolivia agreed bilaterally with the US on a framework of negotiation to start gradual reduction of trade barriers between the countries and the USA. 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 bloc would improve the negotiating power of Latin American countries vis-a-vis Europe. A collective negotiation with the US by a group of Latin American countries might be preferable to bilateral negotiation, with respect to the terms and condition under which trade liberalisation between these countries and the US would be carried out.

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. 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 regionalis", by being a complement to a multilateral trading system rather than a substitute.

Another form of "grouping" which can improve the bargaining power of developing countries is an issue-specific alliance such as the Cairns group. The group is a coalition of developed and developing countries which has advocated the need of incorporating agriculture into the GATT system. The group has been also mediating between the EEC and the US 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. Taiwan Province of China has been building its commercial ties with Europe to reduce its reliance on the US. 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 or availability of foreign exchange for setting up plants in the EEC market. Nevertheless as was discussed in the last two sections there are 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.

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FOOTNOTES

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

2. The meaning of the terms "trade creation" and "trade diversion" as used here (and in much of the recent writings on the SEM) differs from that given to them in the literature on customs unions. In the latter, trade creation is defined as the union-induced shift from consumption of domestic products to the consumption of imports from other members, and trade diversion is the union-induced shift in demand from outside the union to higher-cost products from within the union. Here the terms are used to reflect the positive ("trade creation") and negative ("trade diversion") impacts on the exports to EEC by non-EEC countries.

3. Richard Baldwin, "The Growth Effects of 1992", Economic Policy, No. 9, October 1989.

4. Paolo Cecchini et al., The European Challenge 1992, (Aldershot: Wildwood House, 1989), p. 84.

5. The income elasticities were obtained through the estimation of demand for import functions (at one- and two-digit SITC levels), where imports by EEC from developing countries were regressed against EEC income and the prices of imports from developing countries relative to a composite EEC GDP deflator. Our methodology, based on a single equation of demand (and therefore assuming infinitely elastic supply) may somewhat over-estimate income elasticities.

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

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

8. See, for example, Financial Times, World Trade News, April 17, 1991, p. 6.

9. Source: UN Monthly Bulletin, several issues.

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

11. We thank Gary Hufbauer and Vicente Donoso for insightful suggestions on this point.

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

13. Interview material.

14. Interview material.

15. M. Davenport "The Charybdis of Anti-Dumping: A new Form of EC Industrial Policy?" R.I.I.A Discussion Paper 22, London.

16. C. Stevens "The Impact of Europe 1992 on the South" Multilateralism in Question. IDS Bulletin. Jan. 1990.