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**THE IMPLICATIONS OF THE
SINGLE EUROPEAN MARKET
FOR INDUSTRY IN DEVELOPING COUNTRIES**

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PREFACE

The creation of the Single European Market is the most significant step in economic integration so far taken. A single economic area in which capital and labour, goods and services all move freely is the target set by the countries of the European Community to be achieved by the end of 1992. Given the size and strengths of the Community, the changes under way may be expected to have significant impacts beyond its borders.

UNIDO, with financial support from the Government of the Netherlands, held an Expert Group Meeting from 18 to 20 March 1992 in Vienna to examine the main implications of this process for industrialization in developing countries. The expected growth effects of the Single Market will have implications for the world economy, including changes in trade and investment patterns. Other associated EC policies, especially in the areas of regional policy, competition, technology, environment, energy and technical standards will also affect a wide range of industrial sectors, and thus the prospects for industrialization in developing countries. The Expert Group Meeting reviewed the implications in terms of key industrial sectors: food, textiles and clothing, footwear, steel, chemicals, and electronics.

The present paper draws on the studies carried out in preparation for the meeting, together with the discussions at the meeting itself and other material, in order to attempt an initial summary of the main expected effects. However, due to the complexity of the issues, it is envisaged that further analysis at a more detailed level may be undertaken in the future. This paper is not intended to replace the report of the meeting, which is being issued separately.

The paper was prepared by the Regional and Country Studies Branch of UNIDO, with Dr. Thomas Pietschmann as UNIDO consultant.

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I. INTRODUCTION AND OVERVIEW

This paper draws on the discussions at an expert group meeting held by UNIDO from 18 to 20 March 1992 on the implications of the Single European Market for Industry in Developing Countries, on (sectoral) papers presented by UNIDO consultants at that meeting as well as additional information available at UNIDO headquarters concerning the likely consequences of the EC Single Market for developing countries in general and the industry of developing countries in particular.

A general conclusion appears to be that the Single European Market (SEM) - taken by itself - is neither to the advantage or the disadvantage of developing countries as it offers both new opportunities as well as potential dangers to developing countries' industries. The question to be asked may rather be what economic policies one can expect the EC to pursue once the Single Market has come into being. The preparations for the Single Market have already given some indications. As of December 1991, 80 per cent of the legislation for the realization of the "Single Market Programme" had already been adopted by the EC and 61 per cent of the measures for the creation of a Single Market were already in force in EC Member States.¹ Thus analysis of the likely implications has some first results to draw on.

In the meeting it was often emphasized that events outside the EC or the EC Single Market may have even more important implications for developing countries. Such major "external" events include developments in Eastern Europe and the outcome of multilateral trade negotiations (GATT, Multi-Fibre Agreement, and Multilateral Steel Agreement). In practice it is often difficult to separate EC policies concerning the EC Single Market from other EC policies which are taken as a response to changes in the international environment.

The Single European Market (SEM), as laid down by the Single European Act of 1 July 1987,² is only one step forward on the way towards European integration. Nevertheless, the Single European Market concept has become a symbol of European integration and of the attractiveness of the EC to third countries, as demonstrated by the membership applications of Austria, Sweden, Finland and Switzerland as well as Malta, Cyprus and Turkey and with some East or Central European countries (Czechoslovakia, Hungary and Poland) likely to follow suit.

The next steps on the way towards European integration after the completion of the EC Single Market have already been outlined. The Single Market has been welcomed in most circles in Europe, with more unanimity than, for instance, the treaty of Maastricht (December 1991)³. There is some likelihood that additional steps towards European integration will take more time than originally expected and that the EC Single Market will for some time be the furthest European integration can get without losing public support.⁴

If one analyses the EC Single Market on its own merits (i.e. excluding its symbolic function), it is in many respects nothing more than the completion of a number of important objectives which were already laid down in the original Treaty of Rome (the basis for the foundation of the EEC in 1958).

Up to now, the EC has shown the characteristics of a customs union with - in addition - a number of fields in which specific economic policies (mainly agriculture and trade) were already executed by the EC Commission. Despite the existence of a customs union, i.e. common customs duties *vis-à-vis* third countries and zero customs duties *vis-à-vis* EC member states, the EC remained segmented into 12 national markets, not only because of language barriers but also because of the large number of 'technical' non-tariff trade barriers.

¹ See *Internal Market - Implementation of the White Paper*, in *EC Bulletin*, 12/1991, p. 21.

² This was based on the *White Paper on completing the internal market*, COM(85) 310; *Bulletin of the EC*, 6/1985, points 1.3.1 to 1.3.9.

³ See *Towards European Union*, in *Bulletin of the EC*, 12/1991, pp. 17 ff.

⁴ For a different opinion see Drozdziak, W., *Danish Vote Shakes EC - But 11 Vow to Press On*, in *International Herald Tribune*, 4 June 1992; or Gardner, David and Buchanan, David, *EC to press on with Maastricht*, in *Financial Times*, 4 June 1992, p. 1.

The main objective of the SEM is thus to abolish all those trade barriers in order to intensify intra-EC trade and thus economic growth in Europe⁵ as a prerequisite to reducing European unemployment and making EC enterprises once more competitive on world markets to counter the challenges of enterprises from Japan, the Asian NICs (newly industrialized countries) and the USA.

The Single European Market legislation focuses on harmonizing norms (technical regulations) and standards, reduction of the administrative burden for enterprises (including delays at frontiers for customs purposes) and an opening up of public procurement in EC member states for EC enterprises from all member countries. In addition, EC institutions are strengthened and EC activities already under way (such as in the field of common research) are given a firm legal basis.

It is evident that all these measures have repercussions for developing countries, although the importance of these implications varies according to the sectors concerned as well as from one developing country to another. In some cases the implications are similar for developing countries in the same region.

The tables in this paper, which are given after each section, are an attempt to summarize the possible implications, drawing on the papers and discussions of the expert group meeting, which included participants from developing countries and international organisations and UNIDO staff and consultants. The first table shows EC policy in the sectors under investigation. The succeeding four tables assess the impact of EC policies on industry in developing countries in Asia, Africa, the Arab countries and Latin America. In each of the tables, the bottom line summarizes the aggregate effect. This report attempts a systematic summary of a complex subject: it should not be regarded as a definitive statement of the problems. Nor is it the Report of the Meeting, but a document of the UNIDO secretariat intended to provide information and provisional assessment.

⁵ See Commission of the European Communities, *European Economy - the Economics of 1992*, March 1988, p. 33 ff.

II. GENERAL IMPLICATIONS

A. Technology

EC technology policy is related to the Single Market since the European Single Act of 1987 gave EC operations in this field a firm legal basis.

Industrial policy in the EC has shifted from a 'traditional' industrial policy of "sectoral subsidies" and "sectoral protection" towards "functional subsidies". Whereas sectoral subsidies or incentive schemes are regarded as distorting competition and leading towards inefficiency, 'functional' subsidizing have become popular and are used to promote the 'innovative' capacity of enterprises. The subsidizing of research and development is thereby the core of EC 'industrial policy' in the 1990s. Co-operative research is the centre of EC technology policy, intended to change European enterprises' attitudes towards co-operation in the pre-competitive phase of research. Pan-European co-operation in this field tries to imitate the successful approach that was developed by the Japanese Ministry of International Trade and Industry (MITI) some decades earlier. Enterprises are encouraged to co-operate in the early phases of research, even if they are to compete against each other later on.

Of course, this "functional" approach of industrial policy also has important sectoral implications. Overall EC policies on technology are laid down in the EC framework programmes which started in 1984. The current third EC framework programme (1990-1994) (ECU 5.7 bn) concentrates (like the previous ones) on electronics and information technologies (39 per cent), followed by industrial and materials technologies (16 per cent with programmes such as EURAM and BRITE), energy (14 per cent), life sciences (13 per cent) [which also includes biotechnology (3 per cent) and agricultural and agro-industrial research (6 per cent)], environment (9 per cent) and human resources (9 per cent).

These figures already indicate the overwhelming attention that is given to the electronics sector as it is this which was identified as lagging behind those of Japan and the USA.⁶ The two major programmes are ESPRIT II in the field of information technologies (EC subsidy: ECU 1.6 bn) and RACE in the field of fibre-optics for data communications (EC contribution ECU 0.55 bn).⁷

Other EC programmes are less sector specific. Nevertheless, there are research programmes of relevance to nearly all industrial sectors. In the chemical field the research priorities of industry (chemical reactivity and principles of catalysis, biotechnology, environmental protection, reliable synthesis, and processing and reprocessing of functional and structural materials, new environmentally benign and resource minimizing chemical process technologies etc.) have all been covered in a number of EC programmes.⁸ The chemical industry itself is less convinced of the usefulness of these programmes for European industry given the pre-competitive character of the research and the open information policy which also allows third countries to benefit from such research results.

⁶ See Nakamoto, Michiyo, *Foreign chip makers advance into Europe - the trend is to dominance by US and Japanese groups*, in Financial Times, 12 May 1992, p. 6.

⁷ See UNIDO, *The Electronics Sector - Expert Group Meeting on the Implications of the Single European Market for Industrialization in Developing Countries*, ID/WG 523/6(SPEC), 17 March 1992, p. 14.

⁸ See UNIDO, *The Chemicals Sector - Expert Group Meeting on the Implications of the Single European Market for Industrialization in Developing Countries*, ID/WG 523/7(SPEC), 18 March 1992, p. 15.
See also CEPIC, *European policy for science and technology, The position of the European chemical industry*, Brussels 1992, pp. 20-28.

Research programmes in the field of steel on the other hand - mainly for process and product-related improvements - are considered to be important for the sector. For the food sector, the three most important programmes were BRIDGE (biotechnology research), ECLAIR (linkage of agriculture and industry) and FLAIR (food linked agro-industrial research).⁹ However, these programmes tend to affect agriculture more than actual food processing. For the clothing and textile sector, process-oriented research programmes were directed towards the clothing and knitwear industry and the creation of operational networks to extend quick response production from the fibre manufacturer to the distribution stage. Also, a number of research activities under programmes such as BRITE, EURAM and CRAFT were directed towards the textile and clothing sector.¹⁰ Research into the area of new materials (artificial fibres) has blurred the traditional delineations between the textile industry and the chemical industry. Finally, in the shoe industry, research activities centred more on the manufacture of shoe-producing equipment than on the shoe industry itself.

The major problem arising for developing countries out of the EC research programmes is not the fact that EC research enables European companies to move up market; the real problem for developing countries is that many EC R&D programmes are designed *de facto* to improve traditional fields of manufacturing in which EC industry might otherwise lose its competitive edge.

B. Trade

Trade policy (or EC commercial policy as it is called) was one of the earliest policies pursued at Community level. As long ago as 1975 the Court of Justice ruled that the "Common Commercial Policy" should not only cover questions of external tariffs but of trade policy in general. The Single European Market does not change this. However, a number of national quota systems exist and will have to be abolished (they are likely to be replaced by quota systems at the EC level. Nevertheless it is generally expected that the new EC quotas will bring developing countries some advantages over the status quo.)

The general level of tariff protection of the EC is already very low, about 3.5 per cent, and the tariff exceeds 20 per cent for only a few products.¹¹

Nevertheless, substantial tariff (and non-tariff) barriers exist for most agricultural products and several industrial products which were excluded from trade liberalization. These so-called 'sensitive' sectors include textiles, wearing apparel, steel, ship-building, and (with a lower level of protection) footwear. These 'sensitive sectors' are mostly composed of low-technology manufacturers, using relatively standardized, labour-intensive production technologies and thus creating opportunities for developing countries.

In addition, EC trade policy has tended to grant far wider reductions of duties on primary commodities (excluding agricultural goods produced in the EC) and raw materials than on finished goods.

Far more important than tariffs have been the so-called non-tariff trade barriers. Voluntary export restraints, orderly marketing arrangements, tariff quotas etc. constitute important forms of non-tariff trade protection. Technical regulations may also constitute non-tariff trade barriers. Even systems such as the GSP (Generalized System of Preferences), which allow for limited volumes of duty-free exports from developing countries into the EC, actually put a brake on developing countries' export possibilities, as any excess of that quota is subject to (high) customs duties. The most famous 'voluntary' export restriction scheme is the "Multi-Fibre Arrangement" for textiles and clothing.

⁹ See UNIDO, *The Food Sector - Expert Group Meeting on the Implications of the Single European Market for Industrialization in Developing Countries*, ID/WG 523/2(SPEC), 6 March 1992, pp. 6-7.

¹⁰ See UNIDO, *The Textiles and Clothing Sector - Expert Group Meeting on the Implications of the Single European Market for Industrialization in Developing Countries*, ID/WG 523/3(SPEC), 9 March 1992, p. 10.

¹¹ See Molle, W., *The Economics of European Integration*, Hants (UK), 1990, p. 442.

Nevertheless, it may be expected that the EC Single Market will offer new trade possibilities for developing countries. So far some 500 national quotas exist, many of them dating back to pre-EC times. With the EC Single Market, these national quotas will be abolished and are unlikely to be replaced by Community-level quotas. On the other hand, anti-dumping measures have been used by many countries, including the EC. A more united EC is likely to make even wider use of this instrument.

EC trade policy is particularly significant with respect to imports from developing countries in the field of textiles and clothing. Although there is some probability that the Multi-Fibre Agreement could expire and the textile and clothing sector be incorporated into GATT, the EC is likely to press for a transitional period of 10 years. Within this period, the EC hopes to have its industry automated to such an extent that it will be more competitive with developing countries. In trade negotiations, the EC is likely to offer a faster reduction of trade barriers in textiles (which are easier to automate) than in the wearing apparel sector (in which automation will take some more time). Hopes for a rapid liberalization of the steel sector under the MSA (Multilateral Steel Agreement) have so far not materialized and, with the steel sector once again declining, the EC is unlikely to press for a quick global liberalization. In the chemical sector, there is global over-capacity for easy-to-produce intermediate products. The EC is not likely to give up this market segment for the benefit of developing countries. The protection of the chemical sector is, however, in general very small and an increase in economic growth rates within the EC as a result of the Single Market should offer significant opportunities to developing countries in the medium term. Protection in the footwear sector has been reduced over the past decades to levels which no longer pose a problem to developing country exporters. In the electronics sector, protection is generally low (4 - 7 per cent tariff on imported electronic equipment). Tariffs on semiconductors are still relatively high (14 per cent).¹² However, there is pressure from within Europe to lower the tariffs on semiconductors to make European information technology and telecommunications manufacturers more competitive at the international level.

C. Investment

Overall, the EC has kept a relatively low profile on questions of investment policy. It has been an explicit aim of the Single Market concept to raise the attractiveness of Europe as an investment site - and this aim has been achieved. Generally, there seems to have been a shift in favour of foreign investment, even in areas such as cars or electronics. A few years ago, the EC was still extremely reluctant to see foreign investment in such 'strategic' industries and EC research programmes were originally designed exclusively to improve the competitiveness of EC-owned firms (not of foreign firms operating in the EC). The contribution that foreign-owned companies can make to improve the competitiveness of the European industry is increasingly recognized. By 1995, 80 per cent of demand for DRAMS (4-megabit dynamic random access memory) that can be satisfied by local producers (60 per cent of total EC demand), will come from foreign owned manufacturers producing in the EC.¹³ However, this shift in EC investment policy does not significantly affect most developing countries apart from a number of manufacturers from NICs (especially from Korea).

There have not been - and there will not be - restrictions on EC direct investment abroad because these foreign investment activities by EC firms have been seen as another means to increase the global competitiveness of EC firms.

The only area in which the EC has been reluctant to allow new investment was for capacity expansion in steel. This policy, however, indirectly helped developing countries to expand their steel capacities.

¹² See Nakamoto, Michiyo, *EC chip makers protection is buyers' burden - trade officials seeking tariff cuts find themselves caught in the middle*, in *Financial Times*, 28 May 1992, p. 6.

¹³ See Nakamoto, Michiyo, *Foreign chip makers advance into Europe*, in *Financial Times*, 12 May 1992.

D. Competition

The subject of EC competition policy includes inter-firm co-operation and concentration. The EC Single Act does not bring much of a change in this area. (The most significant change is that transport and financial services are included in the general EC competition policy framework.)

One has to distinguish between the steel sector, governed by the Treaty of Paris (foundation of the ECSC), and the other industrial sectors, which are governed by the Treaty of Rome (foundation of the EEC). The ECSC treaty goes significantly further than the EEC treaty. For example, under the ECSC treaty, steel companies who want to merge need the prior approval of the Commission.¹⁴ The ECSC treaty is significantly more strict and interventionist than the EEC treaty.

EC competition policy as outlined in the EEC Treaty attempts to prevent excessive concentration of economic power damaging the interests of consumers and competitors. Furthermore, competition policy seeks to prevent state aids from distorting competition by giving unfair advantages to certain national firms. (State aids are normally only allowed for purposes such as industrial restructuring, i.e. reduction of capacities in declining industries, environmental reasons, and in some cases for regional development purposes.) Finally competition policy is supposed to prevent companies from re-establishing, by means of market sharing agreements or export bans, less visible but equally effective barriers to trade.

It has to be emphasized that the competition rules of the EEC treaty apply to all enterprises operating in the EC irrespective of their country of origin, i.e. including firms from developing countries. Even so, most industrial enterprises from developing countries (with the possible exception of a few large enterprises from major NICs such as the Republic of Korea)) have nothing to fear from that legislation, since EC regulation on merger control is only applicable if the world-wide turnover of an enterprise is above ECU 15 billion and the turnover within the EC is above ECU 250 million.¹⁵

It may be expected that concentration in all sectors is going to increase in Europe as a result of the Single Market: this is particularly evident in the food sector already, as well as in electrical and electronics industries, although the latter is more a result of global change.

In this context it is interesting to remember that only a few decades ago there was a general fear that large enterprises would prevent an efficient market system from working and that this would lead to a loss in global competitiveness. The Japanese experience, however, has shown that oligopolistic market structures do not necessarily lead to an overall decline of efficiency. On the contrary, if properly managed, they can lead to a growing innovative capacity of the sectors concerned as large companies are in a better position to invest in R&D and product development. These considerations may inhibit intervention in the concentration process in research intensive sectors such as electronics or chemicals.

Thus, both national governments and the EC are likely to accept the concentration process as long as there remains enough foreign competition to prevent the large companies from earning monopoly rents at the expense of European consumers. Developing countries might well use this argument in trade negotiations with the EC, whenever they have some indication that monopoly rents are being earned in Europe due to oligopolistic market structures.

¹⁴ See Molle, W., *The economics of European integration*, 1990, pp. 365 ff.

¹⁵ See UNIDO, *The Steel Sector - Expert Group Meeting on the Implications of the Single European Market for Industrialization in Developing Countries*, ID/WG-523/5(SPEC.), 9 March 1992, p. 7.

E. Standards

The harmonization of technical standards has been at the heart of the Single Market process. The harmonization of rules was already foreseen in the original Treaty of Rome. However, technical barriers to trade on the national level could nevertheless always be justified if technical regulations referred to health and safety of consumers or workers, or to the protection of the environment. Because of different interests of member states, detailed EC-wide technical regulations were difficult to achieve and a very time consuming process. For the creation of a single European market, a new approach had thus to be found. National technical regulations were harmonized at the EC level. However, this new broad harmonization was achieved by confining the limitation of the harmonization process to "essential requirements of safety and health". Thus all EC countries are free to toughen their legislation at the national level for domestic products. But all products having been produced in the EC or having been given the permission to be sold in one EC member country automatically oblige member states' governments to presume that the quality standards of these products do not infringe European health and safety regulations.¹⁶ This legal device results in free market access.

These rules indirectly also apply to third countries and thus to developing countries also. However, these rules nevertheless put third countries (and thus also developing countries) at a disadvantage. If export goods of a third country are in line with EC standards but contradict the (higher) national standards of an EC member country (country A), then direct exports to this country are prohibited. The third country can look for another European country (country B), and from this country goods can be shipped to country A, thus increasing the cost for the (developing country) exporter and thus decreasing his profit margins.

Overall standards so far have already played a major role for the electronics industry, the steel industry and the chemicals industry. In textiles, standardization has so far been restricted to home textiles and protective cloths. For the footwear industry, standards have so far only been important for special footwear, i.e. shoes for oil rig workers or for timber cutters. Sports footwear will be the next target for standardization.

In general, the real problem for developing countries are not the standards *per se* but the expensive and time consuming testing requirements.

F. Environment

An ever-increasing role not only at national level but also at EC level is played by environmental policy. Obviously, EC environmental policy has its greatest implications for the sectors that tend to be strong polluters, such as chemicals, steel or textiles. Within the Single Market, EC-wide environmental standards will increase in number and importance. In general, a more stringent EC policy in these areas may work to the advantage of developing countries, at least in the short term. Companies in the EC are tempted to shift production away from the EC, thereby given a boost to the industrialization process in developing countries. In some cases, environmental arguments could however also be used by the EC to fend off imports from developing countries claiming that developing countries' products were not produced under similarly strict environmental laws which then could be claimed to be an 'unfair trade practice'. Recent decisions by GATT - which were also supported by the EC - however made it clear that such arguments are not a valid excuse for erecting new barriers to trade.¹⁷

¹⁶ See also UNIDO, *International Product Standards: Trends and Issues*, PPD.182, 7 January 1991, pp. 40-41.

¹⁷ This refers to the recent GATT panel ruling on the Mexican complaint against the US embargo on yellowfin tuna and tuna products. The implications of that panel judgement are that a country or a group of countries cannot restrict imports of a product merely because those imports originate in a country with environmental policies different from its own.

See UNIDO, *The Food Sector - Expert Group Meeting on the Implications of the Single European Market for Industrialization in Developing Countries*, p. 27.

G. Regional policy

As part of the general principle of seeking equal distribution of the benefits of European integration, EC regional policy has put an emphasis on accelerating the development of the more disadvantaged areas of the Community.

The EC supports poorer regions within the Community that have an income of less than 75 per cent of the EC average. These include those on the geographical fringes of the Community such as Portugal, Greece and Ireland, and economically depressed regions within individual countries, such as southern Italy, northern England and, in the future, eastern Germany. Assistance is granted for expenditure on retraining schemes to improve skill levels, or support for the creation and running of small businesses. In some cases subsidies for industries to restructure are granted for a transitional period. For the period 1989 to 1993, a budget of approximately \$ 90 billion has been planned for these purposes. Often, regional policy goes hand in hand with structural policy. The European Investment Bank plays a role in both EC regional and structural policy by granting loans to distressed areas within the EC. In addition, the EC allows national governments to subsidize industry in such distressed areas. Plans to grant such aids must however be submitted to the EC for prior approval and the EC refuses aids if they cause a marked distortion of competition.

Analysis of EC regional policy for its sectoral implications suggests that it has a strong impact on steel, electronics and textiles, less so on footwear, and hardly any on the food sector. For the steel sector, regional policy measures normally were less directed towards the steel sector itself but to regions which were affected by the decline in steel production. For the electronics industry, training schemes and support in infrastructure have been most important. In the footwear sector, it is mainly Portugal that has benefitted, having received grants to the footwear sector to master the transition period in the early integration phase. Similar projects in footwear or other low-tech areas would probably be executed in Central Europe as well, once those countries join the EC. In the chemical sector, the restructuring of old and polluting industries has been of prime concern.

H. Human resource development

A number of EC programmes are directed towards upgrading the human resource base. These programmes so far have been mainly directed towards knowledge-intensive sectors such as electronics or chemicals. At the other end of the scale have been some low-tech sectors such as footwear. Apart from simply upgrading the skills of the EC workforce, the EC human resource policy also attempts to strengthen pan-European links and create a European identity. Programmes such as ERASMUS (for studying in universities in an EC member country different from one's own) or LINGUA (for learning EC languages) or the PHARE programme, which includes countries of Central and Eastern Europe should also be seen in this light.

I. General impact of EC policies on EC industry and developing countries

At the sectoral level, it is clear that EC policies pay significant attention to the electronics industry because this sector is regarded as crucial for the decades to come. A further reason is the revealed weakness of Europe in this area in comparison with Japan and the USA, and the fact that the EC is keen to remedy this structural deficiency. The EC is even ready to accept foreign (i.e. US, Japanese and Korean) manufacturers into the EC to make the sector more competitive.

The next field for which EC policies have strong sectoral implications is steel, followed by textiles and chemicals. The steel sector has been a problem area for more than a decade and, despite successes in restructuring, it is still in a fragile position as the recent downturn in the business cycle has demonstrated. The chemical sector is generally well placed in Europe and has shown over the years that it has a significant growth potential. Supportive EC policies are thus of less urgency in this sector.

With the advent of automation, the textile sector is undergoing a slight recovery. In general, EC policy seems to be to protect the textile sector for a few more years in order to give it the chance to modernize and automate and thus improve its cost structure (cut in expensive labour).

For the food sector, only standards policy plays a major role. Higher standards could make it more difficult for developing countries to export processed food items to the EC. On the other hand, the Single European Market will increase demand for an even wider variety of food items.

As for footwear, it is no longer regarded as a strategic sector which has to be protected from outside competition.

Although EC policies have certainly not been designed to support the industrialization process of non-members, they nevertheless offer developing countries ample room to improve their performance. Apart from some Asian NICs, which *de facto* are no longer considered by the EC as 'developing countries' needing special support [which thus may lead to a far stricter trade policy], the Single European Market should offer significant new trade opportunities for developing countries in general.

EC Policies	Food	Textiles	Footwear	Chemicals	Steel	Electronics
Technology policy	weak	medium	very weak	strong	strong	very strong
Trade policy	weak	very strong	very weak	medium	strong	medium
Investment policy	weak	medium	weak	medium	strong (restrict output)	strong
Competition policy	medium	weak	very weak	medium	medium	medium
Standard setting policy	strong	strong	weak	very strong	very strong	very strong
Environmental policy	weak	medium	weak	very strong	very strong	medium
Regional policy	very weak	strong	medium	strong	strong	strong
Human resource development policy	very weak	weak	very weak	strong	medium	very strong
Aggregate effect of Single European Market	medium	relatively strong	very weak	relatively strong	strong	very strong

III. THE IMPLICATIONS FOR INDUSTRY IN ASIAN DEVELOPING COUNTRIES

A. Technology

EC technology policy is important for the electronics sector, for steel, chemicals and, to some extent, for textiles (new fibres, textiles with new characteristics such as non-flammable etc.). Although pre-competitive research offers developing countries in Asia some opportunities to make use of these pre-competitive results which are often published in scientific reviews - given the high level of their technology absorption ability - the net results are nevertheless expected to be slightly negative for most industrial sectors of Asian producers.

The most important R&D programmes of the European Community (such as ESPRIT II or RACE) are directed towards the electronics sector and have as an explicit aim to increase 'European' competitiveness *vis-à-vis* third countries.

An R&D policy in electronics, if successful, would be to the disadvantage of already more advanced countries in Asia as it would challenge the competitive edge these countries have been able to achieve over the past decade. At the same time, it has to be emphasized that EC research is of a pre-competitive nature. Hence the complaint by European companies that research is not 'closed' enough, i.e. results can very easily be obtained by enterprises outside Europe. Developing countries in Asia are well suited to take advantage of these research results and to transform them into marketable products. The advanced Asian NICs have the necessary technological infrastructure as well as a large number of flexible enterprises to grasp such opportunities. The situation is a little more difficult for South Asian countries. But they too have recently shown that they are able to build up the necessary technological basis.

Slightly different is the situation in the case of R&D in the chemical sector. Many large European companies do not participate in EC-research activities and prefer in-house research in order not to share results with potential competitors. Chemical companies are less prepared than companies in other sectors to allow competitors to look into their own R&D laboratories. Developing countries may thus have justified reasons to fear falling behind in knowledge. But this is the outcome of R&D efforts at industry level and not of EC technology policy. Indirectly it may be the result of EC competition policy that favours the creation of transnational European corporations. A major reason why the EC allows such conglomerates to emerge is precisely because of their ability to engage in large-scale R&D activities. Summing up, one can say that both the opportunities as well as the problems connected with EC technology policy in the area of chemicals are certainly of a far less significant nature than those in electronics. However, the overall impact may nevertheless be worse for developing countries in general, and Asian developing countries in particular, as research is done less at Community level and more in individual private enterprises with no information access for developing countries.

Research into textiles has received less international attention but is nonetheless of significant importance. Whereas the clothing industry continues to operate in high-labour cost countries in Western Europe, R&D into textiles has enabled the European textile industry not only to survive but to regain strength. Without such EC efforts in R&D, a large proportion of the European textile industry would have shifted towards Asian developing countries. Some branches of the textile industry (such as special textiles for the space industry, inflammable textiles for military purposes etc.) have, as a result of research efforts, developed into a profitable high-tech industry in which high value-added can be achieved.

B. Trade

For Asian countries, the most important fields are textiles and electronics. In electronics, the trade policy of the EC is still rather open and the Single Market will not change this in any significant way. On the contrary, the openness of the electronics sector has been identified by the EC as a prerequisite for modernizing the EC economy and thus increasing its global competitiveness. In electronics the Community's trade policy focuses on openness in international trade relations and 'fair trading practices'. The emphasis on 'fair trading practices' has however some caveats for the more advanced developing countries of Asia. The Community is alert to alleged 'dumping'.¹⁸ Anti-dumping measures are likely to gain in importance in the years to come.

Apart from the danger of an increase in anti-dumping measures, pressure on developing countries in Asia to open their markets for European equipment in the area of electronics will increase in the years to come.

Nevertheless, the large Single European Market offers producers from developing countries in Asia ample opportunities and, with competitive pressures growing in Europe, developing countries in Asia are also likely to be once again winners in direct foreign investment and direct firm-to-firm cooperation.

For textiles and clothing, the effects of EC trade policy for Asian developing countries are more complex and in general less positive. The Multi-Fibre Agreement is an important impediment for further growth of the textile and clothing industry in a number of more advanced Asian countries. However, for Asian countries which are closer to the beginning of their industrialization process, the Multi-Fibre Agreement offers some protection for building up their own export-oriented industries. The agreement is an incentive for more advanced Asian countries to shift parts of their production to neighbouring countries. At the same time, however, it impedes improvements in intra-industry trade among Asian countries.

Although the Multi-Fibre Agreement will eventually expire, it is likely to take another ten years until the textile and clothing sector is subject to general (i. e. far more liberal) GATT rules. This transition period will be used by European industry to regain competitiveness via large-scale automation. As automation will be easier in the textile sector than in clothing, liberalization can also be expected to occur first in textiles and only later in clothing.

Another problem for Asian developing countries is the opening up of Eastern Europe, which offers wages comparable to those in Asia but has the advantage of being geographically much closer to Western Europe, saving time and transport costs. Thus, EC companies which otherwise would have dealt with Asian countries will be tempted to increase co-operation with Eastern Europe instead.

In contrast to textiles and clothing, trade in footwear is hardly restricted and a larger market in Europe will enable Asian developing countries to increase their European sales.

A Single European Market for steel products has existed *de facto* since the foundation of the European Coal and Steel Community in the 1950s. Thus, the SEM will not bring any significant change in this area. The Multilateral Steel Agreement (MSA) could bring a liberalization that would primarily be to the benefit of Asian developing countries. However, opposition to the MSA in Europe is still strong and the Single European Market is not likely to change the negotiating position of the EC in this respect.

C. Investment

One of the aims of the Single European Market is to raise the attractiveness of the EC as an investment site. In particular, Japanese investment which otherwise would have been directed towards Asia has been redirected towards Europe as a result of fear of a 'fortress Europe' emerging.

¹⁸ See UNIDO, *The Electronics Sector - Expert Group Meeting on the Implications of the Single European Market for Industrialization in Developing Countries*, p. 13.

At the same time, European investment which otherwise would have gone to East or South East Asian countries has remained within the boundaries of the EC. Spain and Portugal were the main beneficiaries of this investment spree in the late 1980s. The next investment targets for European companies (in textiles but also in footwear and electronics) will be Central Europe, which has both a qualified and cheap labour force, and the advantage of being closer to the EC than East or South East Asian countries. Nevertheless, East and South East Asian countries, as well as those Asian countries closer to the EC (especially Turkey), will remain areas of prime interest for EC investment, especially for those EC companies which operate in the world market.

The only area in which the EC has been reluctant to allow new investment for capacity expansion was in steel. This policy indirectly however helped developing countries - and Asian developing countries in particular - to expand their capacities in steel.

D. Competition

Part of the rationale for the SEM was that it would allow companies to merge and enable them to become more competitive on a global scale. EC competition policy represents a challenge to developing countries' enterprises and in particular Asian developing country enterprises.

A significant number of mergers have taken place in the food processing sector and this trend seems likely to continue. The 'liberal' competition policy of the EC (and/or its member countries) has enabled large European corporations to emerge in the chemical sector and they hold a firm grip on the European market. Thus, competition policy has to be judged rather negatively for the chemical industrial sector of Asian developing countries. Competition policy in the area of steel has been characterized over the years by a strongly interventionist regime, similar to that of the agricultural sector. The deep crisis of the European steel sector in the late 1970s and early 1980s led the Commission to apply its powers under the ECSC treaty to introduce a system of production quotas and minimum prices. Although the importance of these measures was subsequently reduced in the late 1980s following a number of steel plant closures and a temporary boost in demand in the late 1980s, the EC is still in a position to introduce such interventionist schemes at any moment. Once EC companies have to reduce their production, there is not much chance for developing countries to expand their exports to the European market, irrespective of their competitive edge over European steel producers.

E. Standards

EC standards have both positive and negative aspects for developing countries. Open standards enable developing countries in general - and Asian developing countries in particular - to participate in global intra-industry trade. Asian developing countries have already shown their ability to take advantage of the increase in intra-industry trade. The ongoing standardization of different intermediate products offers ample opportunities for the more advanced developing countries of Asia, especially in the electronics field.

On the other hand, industries in developing countries do not participate in the standard setting process and standards are formulated from the point of view of European industry. Developing countries' exports from the food processing industries are restricted in this way. In addition, new safety regulations in areas such as footwear have to be seen against the background of attempts by European industry to maintain ground in some high value-added niche markets.

F. Environment

Generally speaking, a stronger environment consciousness in the EC should work to the benefit of developing countries, and Asian developing countries in particular. More stringent EC regulations on the environment (implying higher production costs in Europe) are likely to prompt a number of industries, including steel and chemical industries, to leave the EC. In order to prevent this, the EC is likely to demand in future that producers outside Europe should also adhere to certain minimum environmental standards if they wish to qualify for exporting their products to the EC. Yet even if this occurs, Asian developing countries will be among the first to be in a position to fulfil such requirements.

G. Regional policy

EC regional policy has thus far operated in favour of Spain, Portugal, Greece and to some extent poorer areas in the south of Italy, the north of the UK and parts of Ireland. The textile and clothing industry as well as the footwear industry thus received special support in Portugal and Spain and this to some degree reduced the possibilities of Asian developing countries to advance even more rapidly with their penetration of the European market. A similar phenomenon can be found in other sectors as well. However, the firm EC policy of reducing steel production capacities actually proved very beneficial for developing countries, in particular for Asian developing countries, in that it reduced competition on world markets.

H. Human resource development

Human resource development policy in the EC has gained in importance over the past few years. Special emphasis is given to high-tech areas such as electronics and a number of branches in the chemical sector and in the food sector (although not in food processing but in branches such as biotechnology).

The emphasis on improvement of human resources in Europe increases the gap that exists between Europe and developing countries. The more advanced Asian developing countries which are in a good position to be able to give due regard to human resource development are, of course, significantly better placed and less affected than developing countries in other parts of the world.

I. General impact of EC policies

Despite a number of potential dangers (especially arising out of EC trade policy), the general impact of the Single European Market on the economic development of developing countries in Asia is still positive. Asian countries are better prepared than most other developing countries to participate in the global intra-industry trade which the Single European Market will promote. It is expected that about 60 per cent of additional trade in manufactured products arising out of the SEM (and from which developing countries can benefit) will go to the Asian NICs, China, the ASEAN countries and the South Asian countries. (Two-thirds of this additional trade, however, is expected to be reaped by the four Asian NICs (Hong Kong, South Korea, Taiwan and Singapore); on the other hand, these four Asian NICs will also have to reckon with significant trade diversion effects which may more than offset the trade creation effect.)¹⁹

In electronics, the Single European Market offers significant new market opportunities. For economically less advanced Asian developing countries (i.e. excluding first generation NICs but including second generation NICs), the footwear sector offers ample opportunities to expand, and also for steel and chemical production the general impact is still positive. Asian countries are certainly also in a position to expand their food trade with the EC, given rising consumer demand for the 'exotic food' and 'health food' segments in which Asian countries have much to offer. However, in the textile and clothing sector Asian countries (both first generation and second generation NICs) might not benefit as much from rising European demand as in the past, unless the Multi-Fibre Agreement is terminated in the near future. In addition, Eastern Europe now offers a serious alternative for labour-intensive production lines and has the advantage of closeness to the EC market, which in times of increased automation in Western Europe offers more flexibility in the implementation of a 'quick response' strategy.

¹⁹ Asian NICs, ASEAN, China and south Asian countries; not included are West Asian countries.

See Sheila Page, *Some implications of Europe 1992 for developing countries*, quoted in UNIDO, *Industry and Development Global Report 1991/92*.

Implications of Single European Market policies for developing countries in Asia						
EC Policies	Food	Textiles	Footwear	Chemicals	Steel	Electronics
Technology policy						
Opportunities	++	+++	++	++	++	+++
Problems	--	----	--	---	---	----
net implications	neutral	slightly neg.	neutral	slightly neg.	slightly neg.	slightly neg.
Trade policy						
Opportunities	+++	+++	++++	+++	+++	+++++
Problems	-	-----	-	--	----	----
net implications	positive	strongly neg.	strongly pos.	slightly pos.	slightly neg.	slightly pos.
Investment policy						
Opportunities	+	++	+++	++++	+++	++++
Problems	-	----	-	----	--	----
net implications	neutral	negative	positive	neutral	slightly pos.	neutral
Competition policy						
Opportunities	+	+	+++	+	+	++
Problems	---	--	-	---	--	--
net implications	negative	slightly neg.	positive	negative	negative	neutral
Standard setting policy						
Opportunities	++	++	++	+++	+++	++++
Problems	----	---	---	---	---	--
net implications	negative	slightly neg.	slightly neg.	neutral	neutral	positive
Environmental policy						
Opportunities	+++	+++	++	++++	+++	+
Problems	--	-	-	--	--	-
net implications	slightly pos.	positive	slightly pos.	positive	slightly pos.	neutral
Regional policy						
Opportunities	+	+	+	+	+++	+++
Problems	-	---	-	--	---	---
net implications	neutral	negative	neutral	slightly neg.	neutral	neutral
Human resource development policy						
Opportunities	++	+	+	+	+	++
Problems	--	-	-	--	-	----
net implications	neutral	neutral	neutral	slightly neg.	neutral	negative
Overall assumption of Single European Market						
Opportunities	+++	++++	++++	++++	++++	+++++
Problems	-	-----	--	---	---	---
net implications	positive	neutral	positive	slightly pos.	slightly pos.	positive

IV. THE IMPLICATIONS FOR INDUSTRY IN THE ARAB REGION

A. Technology

For Arab countries EC technology policy does not offer too many opportunities. Advances due to EC R&D efforts in chemicals would certainly put Arab countries at a disadvantage. The same applies to steel. Textiles are also negatively affected since as a result of technological advances arising out of EC R&D, Arab countries can no longer benefit to the same extent from low cost labour as otherwise would have been the case.

B. Trade

Given the low protection of the footwear sector, the Single European Market offers ample opportunities to Arab countries to specialize in footwear. Quality still needs to be upgraded but Arab countries have already started to prove that they are able to compete in this sector on West European markets (after having supplied East European markets earlier) and the SEM will further improve Arab countries' abilities to do so. Low protection of the EC market should also prove an advantage for Arab countries in some fields of electronics and in the food sector. Less clear is the situation in the chemical sector. Although overall tariffs are low, Arab countries (especially Gulf countries) find it hard to export to Europe because of non-tariff trade barriers established over the last few years. In addition, large multinationals, which have a firm grip on distribution channels in Europe, have their own refineries and petrochemical plants in Europe and, so long as these plants suffer from low capacity utilization rates, Arab exporters - despite modern factories - are at a clear disadvantage. However, stronger economic growth in the EC due to the Single Market could increase capacity utilization rates of European factories and any further demand would then lead to significant increases of imports from Arab countries. Thus the overall implications of the SEM and EC trade policy in the field of chemicals have been assessed as 'neutral' for Arab countries.

One crucial point in this connection that calls for a solution on a global level is the question of 'depreciation charges' in pricing products. The singular situation with which a number of developing countries are faced is that their modern factories stand idle and are *de facto* not allowed to export to Europe while old factories (in the EC and other developed countries) may work at full capacity as they - legally - do not have to provide for any depreciation charges in the prices of their products sold, once their factory has been written off; they can sell their products at variable costs whereas in the case of developing countries such action would provoke anti-dumping measures.

C. Investment

The implications of the Single European Market for investment in Arab countries should be positive for footwear, and still positive for textile and clothing. With growing competitiveness in the EC market, European firms will have to look for new production sites for their labour intensive lines of production, especially in clothing and footwear. Time considerations play an ever more important role and thus Arab countries (especially Maghreb countries) can benefit from proximity to the EC. Especially for temporary exportation, similar treaties to those with Eastern Europe exist with the result that a couple of Maghreb countries (Tunisia and Morocco) are well placed for future European investment (especially from France). Together with Eastern Europe, Arab countries are generally well placed for increased European investment (although in the overall increase a shift away from Arab countries and towards Eastern Europe has to be expected.) Although many Arab countries are ideal investment sites for the chemicals (mainly petrochemical) industry, European investment will not increase significantly so long as trade barriers between Arab countries and the EC remain. A free trade agreement between the Gulf countries and the EC is under negotiation, but not yet agreed.

D. Competition

EC competition policy, which is leading to greater concentration of firms in the EC, may reduce the negotiating power of Arab firms. Improved economies of scale in European firms will in relative terms weaken the competitive position of Arab enterprises. These trends are particularly negative in the food sector as well as in chemicals and steel. Yet this 'liberal' competition policy is not significant for the footwear sector, where economies of scale are already being achieved in small production units. Thus for the footwear sector EC competition policy does not have any negative implications.

E. Standards

Higher standards are an expression and a consequence of the growing "quality consciousness" of European consumers. The Single European Market - although not directly responsible - is accelerating such trends. High EC standards are not necessarily to the advantage of Arab countries. High standards for manufactured products, in particular for manufactured food products, act as a barrier to trade. Because of the proximity to the European market and thus low transport costs, Arab countries should - in theory - have better chances than other developing regions of selling their manufactured food products on the European market. Although non-tariff trade barriers in the food sector are still lower in the EC than in the USA or Japan, standard, as well as quality testing, requirements and other non-tariff trade barriers have been estimated to be equal to tariffs of 33 per cent, i.e. far higher than in other sectors of manufacturing, where the tariff equivalent varies between 2 and 8 per cent.²⁰ The only exception is the electronics sector where standards are a precondition for producers from Arab countries wishing to specialize in certain niche markets and provide European manufacturers with these products. The more standardized the production process, the more opportunities exist for Arab producers to participate in intra-industry trade with the EC.

F. Environment

In common with other developing countries, high EC environmental standards are positive for Arab countries. Particularly in the chemical industry, higher European standards will increase production costs in Europe and may prompt European firms to leave and concentrate their industrial activities close to the EC market in Arab countries. The same may also be true for steel companies and for the textile and leather industries. Indirectly, this phenomenon would thus also positively affect the Arab footwear industry. Furthermore, sound environmental policies in Arab countries bordering the Mediterranean are of vital interest to the EC. An EC programme (MEDSPA) for the protection of the Mediterranean environment (totalling ECU 12.8 million) has already been started, and the Arab countries should be able to benefit in one way or another from this.²¹ The ENVIREG programme may be another possibility, since it allows for non-member participation.

This positive assessment, as far as Arab countries are concerned, of a stricter environmental policy in the EC does not rule out some negative side effects for some oil producing Arab countries if EC environmental policy should prove successful. A successful environmental policy includes savings on environmentally harmful sources of energy, including oil.²² The planned combined energy and carbon dioxide tax is one of a series of measures proposed by the EC Commission to stabilize CO₂ emissions at their 1990 level by the year 2000. This new tax (US-\$ 10 per barrel by the year 2000) - if introduced - should gradually increase the environmental element in the tax system. Parallel to the new tax, a number of tax incentives and tax reductions would come into being (some of them also ecologically oriented) so that the

²⁰ See Molle, W., *The Economics of European Integration*, Table 19.2. New Tariff Barrier equivalents (in percentages) for various countries and products, Hants (UK) 1990, p. 445.

²¹ See *Bulletin of the EC* (Medspa) 12/1991, p. 92.

²² A general programme on Community energy supplies geared towards 'environmental compatibility' will be submitted by the Commission within 1992.

See *Bulletin of the EC*, 9/1991, p. 24; see also *Parliament resolutions on energy and the environment*, in *Official Journal of the EC*, C 183, 15 July 1991

overall tax burden will not be increased. Other proposed actions, such as speed limits, charging of environmental costs in taxes on commercial vehicles and private cars, minimum insulation standards, stronger emphasis on research and technological development programmes on reducing emissions etc., also aim at reducing energy consumption, and promoting energy efficiency as well as the use of energy sources with lower CO₂ emissions, i.e. less oil.²³

G. Regional policy

EC regional policy, favouring its own member countries such as Spain and Portugal, indirectly reduces the attractiveness of Arab countries as production sites or trading partners. Furthermore, regional considerations also play some role in the overall level of protection within the EC. Without the southern EC members in particular and consideration of their economic advance within the EC, the EC would in many areas follow a much more open trade policy that would benefit Arab countries. Especially for chemicals, the EC is unwilling to sacrifice its low-tech, mass production industries in peripheral EC countries in favour of more competitive Arab producers.

H. Human resource development

EC human resource development policy, promoting overall skill levels and especially high-tech lines of production, will increase European competitiveness vis-à-vis other producers. This applies to developing countries, including Arab countries. The electronics and chemical sectors are particularly affected. A well-trained and highly responsible workforce, aware of the potential consequences of its activities, has become a necessary prerequisite for capital- (and risk-) intensive modern production lines. Although significant improvements have taken place in this respect over the past two decades in Arab countries, demands on human resources have increased as well and the potential risks in connection with human negligence have multiplied. In improving the human resource base in Europe, the EC is eager to keep its competitive edge. Human resource considerations have actually prevented a number of European firms from leaving Europe despite high wage costs. This is especially true of chemicals and some sophisticated fields of electronics.

I. General impact of EC policies

Despite a number of policies which might put Arab countries at a disadvantage, the impact of EC policies should be slightly positive. Because of closeness to the EC market, as well as the consciousness of EC politicians that Europe has to play a more prominent role in the wider region (to take account of demographic trends and reduce the level of environmental pollution), a more consolidated EC is not in a position to deny its Arab partners better access to its markets. In addition, the EC is dependent upon Arab oil and this dependency will increase in the years to come. In all sectors under consideration, the impact of the Single European Market for Arab countries should be at least slightly positive. For processed food products, the EC is certainly a potential growth market for Arab products, provided Arab producers are prepared to comply with sometimes very demanding EC standards. Arab food is already starting to be known in Europe and in the Single European Market demand for even more diversity - as projections show - will certainly increase.

²³ See *Environment carbon dioxide emissions, Bulletin of the EC*, 9/1991.

Projections for the manufacturing sector see the share of Mediterranean countries (i.e. Arab countries as well as non-Arab countries such as Turkey, Israel, Cyprus and Malta and the former Yugoslavia) and OPEC countries (i.e. mainly Arab countries as well as a few countries in Asia, Africa, and Latin America) benefiting from trade creation within the SEM. Their share is estimated at around 28 per cent of total increased trade manufactured products arising out of the SEM.²⁴

For OPEC countries, additional trade in raw materials, and in oil particularly, as a result of the SEM will, however, be about three times more important than increases in manufactured exports. In contrast, Mediterranean countries will benefit twice as much from trade creation in manufactured exports as from increased primary goods exports. Even taking possible trade diversion effects into account, the net result for both Mediterranean and OPEC countries is still clearly positive.²⁵

²⁴ Although the two groups of Mediterranean and OPEC countries are not identical with Arab countries, the bulk of these two groups are Arab countries and thus there is some justification for taking the two groups as a surrogate for the group of 'Arab countries'. Moreover, the EC does not have a policy on 'Arab countries' but rather a Mediterranean policy including Arab countries and the Maghreb region, as well as a policy on countries which are members of the Gulf Cooperation Council.

²⁵ See Page, Sheila, *Some implications of Europe 1992 for developing countries*, in *UNIDO Global Report*, 1991/92, p. 38.

Implications of Single European Market policies for Arab countries						
EC Policies	Food	Textiles	Footwear	Chemicals	Steel	Electronics
Technology policy						
Opportunities	+	+++	++	++	++	++
Problems	-	----	--	----	----	----
net implications	neutral	slightly neg.	neutral	negative	negative	slightly neg.
Trade policy						
Opportunities	+++	+++	++++	+++	+++	+++
Problems	--	---	-	---	----	--
net implications	slightly pos.	neutral	strongly pos.	neutral	slightly neg.	slightly pos.
Investment policy						
Opportunities	++	++	+++	++++	+++	+++
Problems	-	---	-	-----	---	---
net implications	slightly pos.	slightly neg.	positive	slightly neg.	slightly pos.	neutral
Competition policy						
Opportunities	+	+	+++	+	+	++
Problems	---	--	-	---	--	---
net implications	negative	slightly neg.	positive	negative	negative	slightly neg.
Standard setting policy						
Opportunities	++	++	++	++++	++	+++
Problems	----	---	---	----	--	--
net implications	negative	slightly neg.	slightly neg.	neutral	neutral	slightly pos.
Environmental policy						
Opportunities	+++	+++	++	+++++	+++	+
Problems	----	-	-	--	--	-
net implications	slightly neg.	positive	slightly pos.	strongly pos.	slightly pos.	neutral
Regional policy						
Opportunities	+	++	+	++	++	++
Problems	--	---	--	----	--	---
net implications	slightly neg.	slightly neg.	slightly neg.	negative	neutral	slightly neg.
Human resource development policy						
Opportunities	++	+	+	+	+	+
Problems	--	-	-	---	--	----
net implications	neutral	neutral	neutral	negative	slightly neg.	strongly neg.
Overall assumption of Single European Market						
Opportunities	+++	+++++	++++	++++	+++	++++
Problems	-	---	--	---	--	---
net implications	positive	slightly pos.	strongly pos.	slightly neg.	slightly pos.	slightly pos.

V. THE IMPLICATIONS FOR INDUSTRY IN SUB-SAHARAN AFRICA

A. Technology

EC research results help to improve the competitive position of European industry and by definition this reduces the competitive strength of industry in other countries, including developing countries in sub-Saharan Africa. Nevertheless, given the import substitution strategy of most African countries and the low value of industrial exports to the EC, the negative implications for African countries of EC policies on the Single Market should not be regarded as too significant.²⁶

In the field of electronics, positive and negative effects will cancel each other out. Strong research efforts by industrialized countries make it even more difficult for African countries to build up an electronics industry of their own. On the other hand, due to global research efforts which also include research efforts in the EC, the prices of electronic equipment have decreased dramatically thus enabling relatively poor African countries to make use of modern equipment and to rationalize their production processes. In communications technology, advances made through global research enable African countries to make a significant leap forward without having to invest heavily into modern technology. The lack of reliable, widespread telecommunications services in developing countries has proved to be a major constraint to industrial development and it is obvious that sub-Saharan African countries have to build up their telecommunication network if they want to participate in global economic development and avoid further marginalization. Recent progress in telecommunications technology - a result of global research efforts (including those undertaken by the EC) - has been such that it offers significant competitive advantages for latecomers and thus also to countries of sub-Saharan Africa.

The steel sector is another example of a sector which offers opportunities for latecomers. Direct reduction technology, for example, will significantly improve the cost structure and thus the competitive position of new plants. This technology is only feasible for new plants and many of these new plants will come on-stream in Africa in future years.

For the food sector in particular, EC research offers opportunities for marketing and selling new products. However, such research tends to concentrate more on food (e.g. the agricultural sector) than on food processing (e.g. the industrial side of the food sector).

B. Trade

Given the special relations of sub-Saharan African countries with the EC within the framework of the Lomé Convention,²⁷ African countries are - from a legal point of view - better placed than other developing countries to benefit from the Single European Market. In particular, the industries in the more advanced African countries should be able to reap benefits from the SEM.²⁸ There are no restrictions on industrial exports so long as products originate in Africa. (South-South co-operation between African and Asian countries is, however, made very difficult because of strict rules of origin, which in a number of cases have prevented African manufacturers from entering into new production areas, especially in the field of electronics.)

²⁶ See UNCTAD, *Impact of the Single EEC Market of 1992 on Developing Countries*, Global Report, 1991/92, p. 38.

²⁷ The latest Convention, Lomé IV, was signed in December 1989 and entered into force 1 September 1991 after the ratification by the 12 Member States of the EC and the 54 ACP countries. (African, Caribbean and Pacific island countries). All sub-Saharan African countries form part of the Lomé Convention with the exception of the Republic of South Africa.

See *Entry into force of the fourth Lomé Convention*, EC Bulletin, 9/1991, p. 51.

²⁸ A good example of existing possibilities arising out of the Lomé Convention for the more industrialized countries in Africa is Zimbabwe. After joining the Lomé Convention, Zimbabwe was able to boost its exports to the EC. Between 1982 and 1987, Zimbabwe's exports to the EC increased from ECU 3.8 million to ECU 48.4 million with major expansions in non-traditional exports.

See Riddell, Roger, *The expansion of non-traditional exports*, in The Courier No. 127, May-June 1991, p. 78. Another positive example is Mauritius, which has been able to boost its textile exports to the EC because of the market access guaranteed in the Lomé Convention. See McQueen, Matthew, *Successful export diversification under adverse conditions*, in The Courier, May-June 1991, p. 74.

In many cases, African countries are only in a position to supply the European market because of export restrictions on Asian countries. This situation also acts as an incentive for Asian producers to shift production to Africa.²⁹ If the impetus for global trade liberalization were to be lost, and the Uruguay Round to founder, preferential treatment for industrial African exports would remain intact.

Overall, the Single European Market should help to boost African food exports to the EC. Footwear is another sector for which there are ample opportunities to expand although the quality of raw materials (leather) has still to be improved in many African countries. For textiles and clothing, the quota system for NICs within the framework of the Multi-Fibre Agreement offers African countries export opportunities which they have not yet fully grasped. The real problem for African manufacturers is not EC legislation but their limited abilities to penetrate the European market. At least in the first phase, close co-operation with European partners, which have the necessary distribution channels, seems to be necessary even if this might mean that a significant part of the total value-added remains with the European partners.

C. Investment

Given the ample opportunities within the EC itself and also in neighbouring Eastern Europe, there will be limited scope for shifting production to Africa. Infrastructure is often not in good condition, wages are not as low as in some Asian countries, and support services often inadequate. There are, of course, some exceptions. In countries with abundant raw materials, there will always be an argument for shifting production from Europe to Africa and engaging at least in some early phases of processing. Gradually, therefore, African countries should try to raise their share in the total value-added chain.

There is, for example, a strong case for moving iron ore processing activities to Africa, to be followed by steel production in the subsequent phase. Although steel production is still at negligible levels for the time being, the African steel industry is gaining strength as a number of new plants based on modern technology will come on-stream in a few years time. Once these companies can prove their profitability, European firms are likely to follow suit by investing once again in Africa.

Footwear is another sector that could see some new investment from EC firms, once African leather has become a quality product. A number of projects, including UNIDO projects, aim at improving the quality of leather in African countries.

D. Competition

A further concentration in the food sector in the EC is not necessarily to the advantage of African manufacturers. Similar arguments hold true for the chemical sector and for textiles. As discussed in connection with other developing regions, footwear is not really affected by EC competition policy and this remains the case of the footwear sector in African countries.

For the steel sector, the overall strong competition policy (including subsidies for capacity reduction in Europe) has opened up new possibilities for African producers.

E. Standards

More than other regions, sub-Saharan African countries will find it hard to fulfil ever higher quality standards. This statement applies to nearly all sectors. African countries already have some experience with demanding EC standards for slaughter houses, which need special EC certificates in order for meat to be exported to Europe. However, to the extent that fulfilling the requirements entails a quality upgrading, this has positive aspects. Moreover, meeting EC standards gives access to a very large market.

²⁹ Mauritius as a signatory of the Lomé Convention is a good example of a country benefiting from such production shifts. Some Hong Kong textile and garments producers shifted production to Mauritius because of EC quota regulations on Hong Kong producers and thus contributed to the 'Mauritian success story' in the 1980s, initiating a large-scale industrialization process in that country.

However, the only exception for which standards play an unambiguously positive role is in electronics. In this case, EC standards offer developing countries in general (including African countries) the opportunity to participate in intra-industry trade by supplying specific items to European clients.

F. Environment

An overall stricter EC environmental policy would benefit African countries. Not only would this lead to a number of industries shifting away from Europe to countries with less strict rules, thereby starting a general industrialization process; stricter environmental rules in Europe would also change the nature of industrial inputs, and in many cases African countries could benefit from such changes. Stricter environmental legislation in the steel sector would, for example, lead to a shrinking of sinter production and coke production in the EC and to an expansion of these activities abroad, including Africa. The more costly pelletizing process would substitute to some degree for the sintering process, and the use of more pellet feed for blast furnaces in the EC would bring more money for some developing countries, including Africa, than the mere delivery of iron ore. The use of direct reduction would boost natural gas at the expense of EC coal and there would be a movement of some processes to iron ore producing countries, many of which are in Africa.³⁰ Similar considerations come into play in other sectors; for example, some processes in the textile and chemical industry might be shifted to Africa.

For food exports, on the other hand, stricter EC rules on the environment might also oblige developing countries in Africa to fulfil new requirements, thus imposing additional costs on them. The European consumer shows a high awareness of environmental problems and is concerned with the environmental impact of the food items he or she intends to consume. In more general terms, additional costs for African countries arising out of EC environmental legislation will fall mostly in sectors that are closer to final consumption. For all other sectors, African countries should be clear winners.

G. Regional policy

EC regional policy has only some minor negative implications for African countries. Sub-Saharan Africa is less affected by EC regional policy than, for example, Arab countries because the sectors supported in disadvantaged regions are generally of less importance to the economies of sub-Saharan Africa than to the much nearer Arab countries. In some cases African countries can even benefit from a successful EC regional policy as the Community retreats from sectors which are no longer viable in Europe because of high wages. An example of this is the "Retex" programme of the EC, which aims to diversify production in EC regions that are heavily dependent on the textile and clothing industry.³¹ Part of the programme involves retraining employees in the textile and clothing industry to enable them to shift towards other sectors of the economy. Similar schemes also exist for the steel sector.

³⁰ See UNIDO, *The Steel Sector - Expert Group Meeting on the Implications of the Single European Market for Industrialization in Developing countries*, pp. 12 ff.

³¹ For potentially viable firms, the setting up of teams of advisers (especially in production and formulation and implementation of modernization plans) as well as training schemes and access to risk capital is foreseen. This clearly shows that not only diversification but also strengthening of the sector is an objective of the programme.

See *Bulletin of the EC*, 10/1991, 1.2.36, p. 24; see also Council Regulation No. 42453/88 laying down provisions for implementing Regulation No. 2052/88. As regards co-ordination of activities of the different structural funds among themselves and on the operations of the European Investment Bank and other existing financial instruments, see *Official Journal of the EC*, L 374, 31 December 1988.

H. Human resource development

In common with other developing regions, a successful EC human resource development policy decreases - in relative terms - the attractiveness of Africa as a production site. Especially in sophisticated areas of electronics and in some high-tech areas of the chemical industry the gap has even widened. The real problem in many African states is to create the necessary critical mass of qualified manpower that will lead to companies investing in Africa. The increased attractiveness of Europe due to the Single Market effect may accentuate the brain drain from African countries and compound the problem. The attractiveness of the SEM (or rather its human resource policy) brings with it the danger that these general tendencies may further accentuate the brain drain from Africa to Europe.

I. General impact of EC policies

A more vibrant European market, together with the easy market access that African industry enjoys, should enable African producers to benefit from the Single European Market. Nonetheless, Africa cannot count on any significant boost in EC investment in the short term. The decision of whether to invest in Europe or in Africa does not, for the time being, work to the advantage of Africa. The SEM has clearly strengthened the position of Europe and weakened the position of sub-Saharan Africa and other regions in this respect.

Among the sectors under investigation, steel and footwear are well placed for penetrating a more buoyant European market. Textiles and clothing are also in a good position to benefit from the Single European Market so long as the Multi-Fibre Agreement remains in force. Despite higher standards for food items, Africa's food processing industries should also be able to discover new market niches once they can meet the demanding quality standards.

Equally important are the indirect effects of the Single European Market for African industry. A more buoyant European industry will first of all need more natural resources and in this respect Africa is very well endowed. Africa, being able to generate more income from raw material exports to Europe, will also be in a better position to build up and modernize its own industry to satisfy rising local demand in the African market(s).

Some projections suggest that African industry may benefit from direct trade creation arising out of the Single European Market to the extent of 5 per cent of the overall benefits for developing countries. This share is similar in size to the benefits countries of South Asia or the countries of the Maghreb region can expect. However, sub-Saharan Africa can expect additional trade creation from primary exports to a much greater extent than South Asian or Maghreb countries. The additional value of primary exports is expected to be about 70 per cent greater than the additional value of manufactured products. In the Maghreb countries, additional primary exports will be 34 per cent lower than additions of manufactured exports, and in South Asia additional raw material exports due to SEM are expected to amount to less than 10 per cent of additional manufactured exports. Given this basic structure, sub-Saharan African countries will also be less affected by possible trade diversions than other developing regions. Although projections point to the danger of trade diversion being stronger than trade creation in a number of Asian countries (especially in the NICs), the overall effect for sub-Saharan Africa is clearly positive (more than 2 per cent of the value of exports going to the EC).³²

³² See Page, Sheila, *Some implications of Europe 1992 for developing countries*, in UNIDO, *Global Report*, 1991/92, p. 38.

Implications of Single European Market policies for sub-Saharan Africa						
EC Policies	Food	Textiles	Footwear	Chemicals	Steel	Electronics
Technology policy						
Opportunities	++	++	++	+	++	++
Problems	--	---	--	---	---	---
net implications	neutral	slightly neg.	neutral	negative	slightly neg.	neutral
Trade policy						
Opportunities	+++++	++++	++++	+++	++++	++
Problems	---	--	-	---	--	-
net implications	positive	positive	strongly pos.	neutral	positive	neutral
Investment policy						
Opportunities	++	++	+++	++	+++	++
Problems	--	---	-	--	--	---
net implications	neutral	slightly neg.	positive	neutral	slightly pos.	slightly neg.
Competition policy						
Opportunities	+	+	+++	+	+++	+
Problems	---	---	-	---	--	--
net implications	negative	negative	positive	negative	slightly pos.	slightly neg.
Standard setting policy						
Opportunities	++	++	++	++	++	+++
Problems	-----	---	---	--	--	--
net implications	strongly neg.	slightly neg.	slightly neg.	neutral	neutral	slightly pos.
Environmental policy						
Opportunities	+++	+++	++	+++	+++	+
Problems	-----	-	-	--	--	-
net implications	slightly neg.	positive	slightly pos.	slightly pos.	slightly pos.	neutral
Regional policy						
Opportunities	+	++	+	++	++	++
Problems	--	---	--	---	--	---
net implications	slightly neg.	slightly neg.	slightly neg.	slightly neg.	neutral	slightly neg.
Human resource development policy						
Opportunities	+	+	+	+	+	+
Problems	--	--	-	---	---	-----
net implications	slightly neg.	slightly neg.	neutral	negative	negative	strongly neg.
Overall assumption of Single European Market						
Opportunities	+++++	+++++	+++++	+++	++++	++
Problems	---	---	-	---	-	-
net implications	positive	positive	strongly pos.	neutral	strongly pos.	slightly pos.

VI. THE IMPLICATIONS FOR INDUSTRY IN LATIN AMERICA

A. Technology

Overall, a successful EC technology policy might widen the technological gap between Latin American and European producers. Nonetheless, a number of Latin American countries have the potential to make good use of European R&D results to extend the fields of application of modern technology. In some cases, EC research has already assisted Latin American countries to build up new export industries by transforming traditional goods with high-tech production and logistics systems into high value-added intensive export items and foreign exchange earners.

In contrast, in chemicals, European companies seem to have slowed down their rapid expansion of production capacities in Latin America in the 1990s. Among a number of reasons, the development of new, very capital and human resource intensive technologies no longer give Latin America a special competitive edge as a production site. Thus, progress in research has indirectly had some negative implications for a number of Latin American countries in recent years.

B. Trade

Trade between the EC and Latin America is still far from fulfilling its potential. In general, Latin American countries, having opened up their domestic markets, have expressed disappointment that developed countries, including those of the EC, did not similarly open up for Latin American products. Manufactured products still only account for slightly more than 50 per cent of total exports to the EC.³³ Trade liberalization in Latin America (maximum duties were reduced in many countries to 40 or 50 per cent) has already improved the quality and international competitiveness of Latin American industry. But the results would have been even more impressive if developed countries had followed suit.

Nevertheless, on the sectoral level, the Single European Market is expected to bring some positive results for manufacturing enterprises in Latin America. Slightly positive results are expected to emerge for the food processing industry, the footwear industry, the electronics industry and the steel industry (due to an overall increase of demand in Europe), together with an improvement in the clothing sector (due to the abolition of national quotas which *de facto* hampered export efforts by a number of larger Latin American countries).

Although the Latin American footwear sector will hardly be in a position to compete against Asian suppliers on price in the European Market, it is well placed to compete on quality, given the high quality of leather available in a number of Latin American countries, and sophisticated export-oriented shoe industries in Brazil, for instance.

C. Investment

EC investment policy will not have significant implications for Latin America. Far more important will be the Latin American foreign investment policy. This policy will be crucial to the decisions of European enterprises as to whether to invest in Latin America or elsewhere. In addition, successful regional co-operation in Latin America (such as MERCOSUR) or free trade agreements between the USA and Mexico (as part of NAFTA) which could also include Chile, Costa Rica and other Latin American countries at some later stage, would be far more decisive for EC investment in Latin America than any official EC policy in this respect.

However, it is evident that the launching of the Single European Market project in 1987 has re-directed investment funds away from other parts of the world (including Latin America) towards the EC, although this re-direction seems to have already reached a peak.

³³ See UNIDO, *Global Report*, 1991/92, p. 38.

D. Competition

In this area again, the general point may be made that larger EC enterprises will mean greater competition on world markets for Latin American enterprises. This may well be the case in the chemical sector, less so for food processing (where European firms only form a counter weight to large American and Japanese firms) or textiles and clothing.

However, the overall impact of EC competition policy is rather negligible for Latin American countries.

E. Standards

In common with other developing regions, EC standard setting policy offers new opportunities for Latin American companies in electronics. On the whole, standards act rather as a barrier to trade. In order to meet high EC standards, a significant improvement in the availability and quality of "industrial services" is also needed. Nonetheless, uniform EC standards are easier to comply with than different national standards in individual EC countries.

F. Environment

A more strict EC environmental policy should work to the advantage of developing countries in general, including those of Latin America. For processed food exports, the stronger ecological awareness might, however, lead to some changes in the consumption pattern, possibly implying some expensive modifications for Latin American countries in order to comply with these requirements in the medium term.

G. Regional policy

EC regional policy has little impact on Latin American countries. However, the minor effects that do exist are negative rather than positive.

H. Human resource development

A successful human resource policy in Europe implies a relative loss of competitiveness for Latin America. Nevertheless, the human resource basis in a number of Latin American countries is significantly above the developing countries' average and Latin American countries are thus well placed to co-operate with the EC in a number of areas.

I. General impact of EC policies

Although increased progress towards free trade on a global scale will be more important than the trend within the EC, the Single European Market offers on the whole, nevertheless, a number of new opportunities for Latin American producers.

The demonstration effect of the SEM may encourage free trade agreements between the United States and Latin American countries to counterbalance the Single Market.

Furthermore, the EC offers a good example of the advantages which regional co-operation can offer to all member states - a model that might be useful for the successful economic integration of some Latin American economies, such as the MERCOSUR scheme in which Argentina, Brazil, Uruguay and Paraguay participate.

Direct positive effects from the SEM are to be expected for the food processing industries, the footwear industry, the textile and clothing industry as well as the chemical and the electronics industry.

Projections indicate Latin America's share in overall EC trade creation for manufactured products at about 7 per cent of the total trade creation effect for developing countries. Of equal importance will be the increase in trade in primary goods. Even taking all possible trade diversion effects into account, the net result should still be positive with an overall increase of exports of more than 1 per cent.

Implications of Single European Market policies for Latin America						
EC Policies	Food	Textiles	Footwear	Chemicals	Steel	Electronics
Technology policy						
Opportunities	+++	++	++	+	+	+
Problems	--	--	--	---	--	--
net implications	slightly pos.	neutral	neutral	negative	slightly neg.	slightly neg.
Trade policy						
Opportunities	+++++	+++	+++	+++	++	++
Problems	----	--	--	---	-	-
net implications	slightly pos.	slightly pos.	slightly pos.	neutral	slightly pos.	slightly pos.
Investment policy						
Opportunities	++	++	++	++	++	++
Problems	--	--	-	---	--	--
net implications	neutral	neutral	slightly pos.	slightly neg.	neutral	neutral
Competition policy						
Opportunities	+	+	++	+	++	++
Problems	--	--	-	---	--	--
net implications	slightly neg.	slightly neg.	slightly pos.	negative	neutral	neutral
Standard setting policy						
Opportunities	++	++	+	+++	++	++++
Problems	---	---	--	---	--	--
net implications	slightly neg.	slightly neg.	slightly neg.	neutral	neutral	positive
Environmental policy						
Opportunities	++	+++	++	++++	++++	+
Problems	--	-	-	--	--	-
net implications	neutral	positive	slightly pos.	positive	positive	neutral
Regional policy						
Opportunities	+	++	+	++	++	++
Problems	--	---	--	---	--	---
net implications	slightly neg.	slightly neg.	slightly neg.	slightly neg.	neutral	slightly neg.
Human resource development policy						
Opportunities	+	+	+	+	+	+
Problems	--	--	-	--	--	---
net implications	slightly neg.	slightly neg.	neutral	slightly neg.	slightly neg.	negative
Overall assumption of Single European Market						
Opportunities	++++	+++	++++	+++	++	++
Problems	--	--	-	--	--	-
net implications	positive	slightly pos.	strongly pos.	slightly pos.	neutral	slightly pos.

VII. CONCLUSIONS

In general, not only EC policies but the mere fact of a large and expanding Single European Market will force a number of developing countries to reconsider their export strategies. The SEM will offer developing countries a new major outlet for their products, but it will be a very demanding one. Quality standards will be high and developing countries must adapt to these standards if they want to be successful. At the same time, most developing countries do not have much chance of entering the high-tech end of the EC market. This niche will be occupied by European, Japanese, and US firms as well as a few firms from the NICs. However, even if entering at the low end of the market, developing countries will have to prove that they can supply goods of a reliable quality and in time in order to build up a good reputation and move up-market at a later stage. In addition, if developing country producers want to be successful on the European market they will have to meet their delivery obligations under all circumstances. This means that export to the EC has to be taken seriously. In the case of raw material shortages arising out of harvest problems, droughts, shortfalls of local mining production, civil unrest etc., developing country governments will have to be prepared to import additional raw materials so that the local manufacturing sector can continue producing and fulfil its obligations. The same is true of imported spare parts. Actual transport often takes only a few days but administrative delays of weeks or months can lead to a breakdown in production, thus endangering the reputation of developing country manufacturers as reliable suppliers. Furthermore, developing countries will have to identify and specialize in a number of niche markets and seek co-operation with European partners, or build up their own distribution channels - a strategy which, however, needs a strong commitment and investment over a long period of time to be successful. Developing countries should, in addition, carefully study and perhaps adjust the structure of their import duties in order not to penalize local industry with high input prices. This is especially important in the field of electronics; electronic equipment is not a luxury but an important tool to increase the efficiency of enterprises.

The Single European Market *per se* is neither something positive nor negative for developing countries. It is responsible for both trade creation (which works in favour of developing countries) and trade diversion (at the cost of developing countries). Nevertheless, much depends on developing country manufacturers' abilities to grasp in time the chances offered and to show the necessary flexibility.

A key to success is timely 'information'. The manufacturing sector has to have open information channels in order to gain access to the latest technology, marketing and commercial trends. This means the easy availability of all kind of journals, increased foreign travel, participation in international trade fairs etc. so that manufacturers can respond with the speed and flexibility necessary. Close co-operation among local Chambers of Commerce, Associations of Industrialists etc. and international organizations (including UNIDO) is consequently of significant importance in order to keep both the private and the public manufacturing sector in developing countries well informed of changes in the European Community and the world economy as a whole.