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OVERVIEW OF ISSUES*

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PREFACE

The creation of the European Single Market is the most significant step in economic integration so far taken. The creation of 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, is holding an Expert Group Meeting 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 will review the implications in terms of key industrial sectors: food, textiles and clothing, footwear, steel, chemicals, and electronics.

The present paper begins with an examination of the significance of the Single Market, and assesses the relative positions of Europe and the developing regions in world manufacturing. It then discusses the likely impact of the Single Market under a number of headings. It thus seeks to complement the detailed examination of six key sectors in the remaining documentation for this meeting.

The paper was prepared by the Regional and Country Studies Branch of UNIDO.

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1. THE SINGLE EUROPEAN MARKET

The European Community has its basis in the Treaty of Rome, signed in 1957 by the founder members Belgium France, Germany, Luxembourg, Italy, and the Netherlands. In 1973 Denmark, Ireland and the United Kingdom acceded to the Treaty. Further enlargement took place with the accession of Greece in 1981, followed by Spain and Portugal in 1986.

The European Community thus contains at present 12 member states with a combined population of approximately 340 million, and a share in world industrial production of 28 per cent. The Treaty of Rome established both institutions and goals for the Community which have seen a considerable development and refinement in recent years. The basic target of economic and political union has been brought nearer through an enormous variety of actions in the field of regulation, administrative action, research and development initiatives, development of a common trade policy, special sets of measures for economically disadvantaged regions within the community and the like. The scope and fields of action of the Community institutions have been broadened and strengthened.

Particular interest attaches to the most significant set of measures in recent years which have been directed towards the achievement of a single market for goods and services within the Community. All these will be able to move freely from one country to another within the EC by 1993. The deadline for the completion of the necessary measures to allow for this has been given as 31 December 1992.

In order to achieve this, a number of changes has to be made in national legislation and administrative procedures. The factors which at present inhibit the free movement of capital and labour and the provision of goods and services between one country and another amount to a complex of bureaucratic and administrative obstacles. Although there is already free trade between all the member states of the EC, there are still procedures associated with the different levels of value added tax within the Community, exports and import documentation, registration, and the like. Internal borders in the Community still exist at the national boundaries. There is not yet mutual recognition of professional and technical qualifications. There are restrictions on the operations of companies from outside a country, even though the company is based in another EC country. This is particularly the case in services sectors such as banking and insurance where national legislation has often compelled the establishment of local subsidiaries directly responsible to the regulatory authority in the country concerned.

The existence of all these imperfections in the common market within Europe was analyzed in the significant study which became known as the Cecchini report.[1] This explored in economic terms the advantages to be gained from abolishing all restrictions on the movement of capital and labour and the supply of goods and services. It detailed the impact by industrial sector and by member state. This investigation of what were called "the costs of non-Europe" provided the basis for the drawing up of a huge array of changes within the member states necessary to achieve a single market. The commitment by the EC states to this process was made in the Single European Act, which established clear goals and guidelines for the process of achieving the single market.

Technical standards were another significant obstacle to the achievement of a single market, since they often acted as barriers to trade between member states. As a result of European Court decisions, there was recognition of each country's standards by the others. However, member states were still entitled to insist on health and safety standards for products and this gave impetus to a process of the development of European standards, as the best way of overcoming potential difficulties at the national level in this respect.

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1 Cecchini, P., The European Challenge: 1992 - The benefits of a single market, Wilwood House, London 1988.

Another important development has been, most recently, steps towards a political and monetary union. These were embodied in the Maastricht Summit Declaration by the EC states in December 1991 in which the conditions for transition to a single currency and harmonized policies in finance and monetary matters were agreed. Almost all the member states agreed to a social charter, which provided a community-wide basis for the harmonization of labour conditions and workers rights.

A further important step has been that towards the creation of a European Economic Area (EEA), which has been the result of intense negotiations in 1991 between the European Community and the European Free Trade Association (EFTA) states. Negotiations have been accelerated by the wish on the part of the EFTA states not to be excluded from the process of the creation of a large industrial and economic market; most of the EFTA states are heavily dependent on the existing European Community markets and trade much more with the European Community than they do with each other. However, the discussions have been complicated by jurisdictional problems with respect to the legal review of the operation of the EEA. It was envisaged in the EC/EFTA agreement that a new court of justice would be set up, comprising representatives from both the EC court of justice and EFTA states, in order to resolve disputes on the implementation of the EEA treaty. A further complication is that most of the EFTA states have applied for EC membership or are likely to do so very soon. The construction of the EEA is thus subject to some uncertainties and may possibly be overtaken by events in terms of EC enlargement.

The European Community participates in international trade negotiations on behalf of its member states. The current Uruguay Round within the GATT framework has not yet come to a conclusion although it may do so by the time the present meeting is held. The broad areas in which most interest has focused are of special interest to developing countries, either directly or indirectly. They include the operation of the service sector, the world trade in agricultural products (including the role of government subsidies) and also some manufacturing sectors of particular concern to developing countries such as textiles and clothing. Within the context of the Uruguay Round, there has been tentative agreement on a modified extension of the present MultiFibre Arrangement (MFA) which regulates the amount of exports of textiles and clothing from developing countries which will be accepted by developed countries.

In both developed and developing countries, the role of the state as an economic agent has been widely reconsidered in recent years, and doubts as to the effectiveness of state intervention have combined with objections in principle to government action in the field of economic activity as being unfair competition. Thus, in the GATT discussions there has been a considerable questioning of the role of government, and this has extended to criticism of the European Community's common agricultural policy which supports European farm prices and allows for subsequent disposal of commodities on world markets. The European Community in negotiations with other countries also focuses on the question of the government intervention, and has been strict with its own member states in terms of what subsidies they may give to national industries or to what extent they may provide financial support to nationalized industries.

The prospect of the Single European Market has already caused significant changes in business strategies both within and outside Europe. Within Europe there has been a considerable growth in mergers and acquisitions. It was argued in preparation for the Single European market that a larger market would allow for firms to become larger, providing increased efficiency through economies of scale. This appears already to be taking place, at least as far as the increases in size are concerned. Mergers and acquisitions across national boundaries between European firms are becoming increasingly common. An important area of concentration has been the electronics sector, although there has been significant activity in food and beverages as well as chemicals. A second phenomenon has been the growth of foreign direct investment into the EC in order gain access to the large market and to some extent in fear of possible new barriers which might be put up in the future against exports from outside.

United States and Japanese firms have been particularly active in directing investment to one or more European countries, and in addition, EFTA-based companies have also pursued similar strategies.

Analysis of the expected effects of the single market is complicated by the fact that political change in Central and Eastern Europe, and the abandonment of socialist systems towards more market oriented economic systems, has meant a considerable change in focus and emphasis in political and economic strategies. The reunification of Germany, and the need to restructure the industries of the eastern part of Germany has had important and potentially difficult consequences for the German economy as a whole. At the same time, the potential for new investment opportunities, as well as new trade opportunities between Western and Eastern Europe, has meant a concentration of energies on a number of the former CMEA economies, in particular Hungary, Poland and Czechoslovakia. The desire of these countries also as soon as possible to join the European Community will further affect the evolution of structures and procedures originally designed for a community of 6 members rather than of perhaps 20 or more. This is without considering the potential impact of adjustment and restructuring of the states of the former Soviet Union.

2. EUROPE AND DEVELOPING COUNTRIES: SHARES OF WORLD INDUSTRY

Any discussion of the impact of the European Single Market on the manufacturing sector of developing countries has to take into account that the latter is, in general, extremely small by comparison with the industry in the European Community. In so far as world industry is a linked system, changes in Europe will have much greater effect on industry in other developed countries than in that of the developing countries. However, there are cases where, for some regions and sectors, the industrial production in developing countries is significant both in comparison to the EC and to word totals as a whole.

Table 1 shows the manufacturing value added by industrial branch and its regional distribution in 1987. The presentation of statistics in this form is subject to some caveats, because information is not necessarily available for all developing countries in this level of detail. Some smaller developing countries are excluded from the figures as presented. However, it is felt that the figures give a reasonably accurate picture of the relative strength of the different regions in terms of industrial production. (For this and for tables 2 and 3 it should be noted that although Arab countries are separately presented, they are also included in the totals for Africa and for Asia). It can be seen from table 1 that industrial production in the EC is significantly larger than that of developing countries as a whole. There are nevertheless cases in which industrial production at the sectoral level in developing countries exceeds that in the EC. This is true for tobacco manufactures, textiles, and petroleum refineries. There is no case of a single developing region having manufacturing production greater than that of the EC, although Asia in terms of tobacco manufactures and in terms of textiles is not very far from the EC total.

Table 2 shows, for each of the 28 industrial branches, the regional share in the world totals. The strength of the European Community in world production is clearly shown by the fact that for most sectors the EEC has a world share between a quarter and a third of all world production. The few exceptions include both natural resource-based industries such as wood and cork products, and paper and paper products as well as, more significantly, professional and scientific equipment, in which the EEC has only a 14 per cent world share, with 81 per cent of world production arising in other developed countries. The corresponding picture for developing countries as a whole is that of a more reduced world share with particular weaknesses (less than 10 per cent) in furniture production, paper, paper products, printing and publishing, metal products excluding machinery, non-electrical machinery, transport equipment and professional and scientific equipment. The fact that developing countries' share of electrical machinery and apparatus etc. is more than 10 per cent of world production is due principally to the large share achieved by Asia, based principally on consumer electronics.

Table 3 presents the information contained in table 1 in another perspective. It indicates what are the relative sectoral concentrations of each region grouping. Thus, in this case column sums total 100 per cent. The food product sector is the most important for Africa, followed by textiles. In Asia, the most important sector is textiles, followed by electrical machinery and apparatus. For Latin America food products is the largest sector with petroleum refineries in second place. For Arab countries, food products are again the most important, closely followed by petroleum refineries and other non-metallic mineral products. A comparison of the total structure of developing countries with that of the EC discloses that while both groups have food products as their principal manufacturing activity, petroleum refineries are much more important in developing countries, as are basic iron and steel industries. However, non-electrical machinery, electrical machinery and apparatus and transport equipment are basic characteristics of the EC economy which are not present at all to the same extent in developing countries. They account for over 33 per cent of MVA in the EC (and this is true for other developed countries and for Eastern Europe). It is not suggested that developing countries, in their industrialization, would necessarily have to approach the same sectoral concentration as that of developed countries. But it is useful to highlight this distinction because it means that, given the differences in present structures, measures undertaken in the EC for the development of a particular industry, in so far as these measures have an effect outside, will have quite different significance for developing countries.

3. EUROPE AND DEVELOPING COUNTRIES: WORLD TRADE

Trade in manufactures is the most direct form of linkages between the industrial systems of developing countries and those of the EC. As a whole, the EC sources only 10 per cent of its total manufactured imports from developing countries. Of EC manufactures exports, about 13 per cent go to developing countries.

Table 4 summarizes the trade position at a 2-digit ISIC level, showing the shares of developing country imports in total EC imports and the share of exports to developing countries in all EC exports for each industrial branch. It can be seen that the EC is most dependent on developing country producers for industrial products not elsewhere specified, for textiles, clothing and leather products, and for food, beverages and tobacco. With respect to exports, developing countries do not form a major market for any EC industrial branches, but the major ones are industrial products not elsewhere specified as well as chemical related products.

In structural terms, the EC manufactured imports from developing countries are dominated by textiles, clothing and leather products (28 per cent), followed by food, beverages and tobacco (24 per cent). In third place is the group machinery, appliances and transport equipment (22 per cent). These amount to almost three quarters of all manufactured imports from developing countries. The only other large import is of chemical-related products (which would include petroleum products): these stand at 13 per cent of all manufactured imports. The structure of EC manufactured exports to the developing countries is, as might be expected, markedly different, with the largest component being machinery, appliances, and transport equipment (52 per cent of the total). The next component is chemical-related products (20 per cent of the total) followed by food, beverages and tobacco (10 per cent).

The picture that thus emerges is one of developing countries mainly supplying manufactured products closer to final demand than to intermediate demand: the main exception is chemical products. The EC on the other hand supplies capital and intermediate goods, including chemical products. But food, beverages and tobacco also play a significant role in EC exports to developing countries, amounting to more than half the value of food products imported from the developing countries. In general, the relationship in manufactures is unbalanced, but not hopelessly so: the exports of the EC to developing countries are 1.44 times the imports from them.

4. REGIONAL ISSUES

Since developing countries vary widely in their resource endowments, level of manufacturing sector development and participation in international trade and production systems, the impact of the changes under way in Europe will in any case be different for different regions. There are, however, certain specifically regional features, based upon the trade and cooperation agreements, as well as on the sectoral emphasis of these regions which will mean that additional divergences in effects of the European Single Market can be expected. In general, a distinction has to be made between the ACP (Africa, Caribbean and Pacific) states, whose relationship with the European Community is governed by the Lomé Conventions and the non-ACP developing countries. The Lomé agreements provide a number of special features which underline a close historical relationship between the developing countries concerned and various member states of the European Community.

Among the most important features of the Lomé IV Convention are an increase in the European Development Fund, which is the financial resource for technical cooperation between the European Community and the ACP states for 1990-1995. The present value of this Fund is ECU 10,800 million, an increase of 28.2 per cent over the 4th European Development Fund. The total of the Financial Protocol for the ACP states amounts to ECU 12,000 million (1990-1995). The present Lomé Convention also continues the Stabex and Stabmin Fund, which compensate ACP states for falls in world market prices in key commodities on which their economies significantly depend. The purpose of the Fund is to ensure that the level of income received by these states from the export of various agricultural and mineral commodities remains constant in spite of fluctuations in world market demand or prices. A feature of direct concern to the manufacturing sector is the free access of all manufactured products to European Community markets, provided only that the manufactured products concerned have a minimum level of processing in the ACP states ("sufficiently processed products"), this being defined as either a percentage of value added arising in the ACP area depending on the goods concerned, or as a re-classification of non-originating materials as a result of the manufacturing process taken place in the ACP area. Manufactured goods originating in the ACP-EC area are exempt from EC tariffs (Art. 168 of the 4th Lomé Convention) and from quantitative restrictions by the EC (Art. 169). It may be mentioned that this access, however, is not absolutely without restriction, since there are also safeguard clauses in the agreement to be called upon by the European Community in the event of disruption of Community markets by such manufactured products, i.e. in the case of "serious disturbances of the economy of the Community, or of one or more Member States", or if the "external financial stability" were jeopardized or deteriorated because of ACP exports (Art. 177). However, if safeguard measures were taken, particular attention would have to be paid to the interests of the least-developed, landlocked and island ACP States (Art. 180).

4.1 Africa

For ACP states the issues in manufacturing are for the moment mainly those raised in connection with the Lomé Conventions itself. Indirectly, however, the activity in Europe with respect to the Single European market may have special impact in certain manufacturing sectors in which many African countries are particularly interested. A significant one here is food processing. The increase in merger activity within Europe in this sector is particularly noteworthy. Tendencies towards a greater concentration in Europe may have the effect of diverting attention from new investment in Africa. Several large European companies in the food processing sector have extensive interests in certain African countries. Some already have, however, other interests outside Africa, in other developing regions such as Asia. New forms of competition and increased concentration in the European food processing sector may cause both a diversion of interest away from Africa and also a possibility that, in future, large food processing companies with world-wide interests may see the production possibilities in Africa as something to be scaled down or eliminated in favour of lower cost production in other parts of the world.

With respect to the North African states (Arab countries), which are not ACP members, there is a network of bilateral arrangements between the EC and the Mediterranean countries which provide for access of manufactured goods to the market as a whole. The Single Market will also reinforce tendencies of "brain drain" with highly skilled professionals from North African countries seeking employment in EC countries.

Again in relation to the food processing sector, there has been a notable affect of the impact of European standards in Africa (as well as in other developing regions). The standards in question are not those specifically undertaken with respect to the formation of the Single Market, but they are common European standards in the preparation and freezing of fresh meat. They have been extended far beyond Europe by the practice of inspection and approval of slaughterhouses and meat preparation facilities in developing countries by inspectors from the European Community. While some Latin American countries (such as Argentina) have long traditions of exporting fresh meat to other parts of the world, the entry into world market has been a recent phenomenon for such African countries as Zimbabwe, Mozambique and Namibia. For this reason, the impact of technical standards may have provided an important impetus to raise the levels of quality.

4.2 Asia

In this region, there is only a small number of ACP states, in the Pacific region. The most significant trade partners with the European Community have no special cooperation agreements with them, beyond a certain number of individual agreements in such areas as scientific and educational cooperation. The cooperation with ASEAN has, however, been increasingly important with an institutionalized form of dialogue having been set up. In this large region, where vast differences in income level and industrialization levels have prevailed, the rise of the "Newly Industrializing Countries" (NICs) has caused changed perceptions in Europe, as this area is increasingly seen as a potential growth market for EC exporters.

The issues with respect to Asia are highly focused in the short term on such key sectors as textiles and clothing, as well as consumer electronics. The former are regulated by the MultiFibre Arrangement which, involving a system of quotas for access to individual developed country markets from developing countries, has been widely criticized by proponents of free trade. Its origins, however, in the noted decline and perceived gloomy future for European and other developed country producers of textile and clothing, have meant that there are powerful pressures for its retention in some form. Given the EC responsibility as the trade negotiator at a world level for its member states, the support for the MultiFibre Arrangement in a somewhat reduced form for at least the next ten years has already been made clear, and a provisional agreement to this effect has been incorporated within a possible settlement of the Uruguay Round in the GATT negotiations. The effects of the MFA are already evident in both Europe and in developing Asia. In Europe, the contained competitive pressures, together with technological development of the sector have meant that to some degree European producers have regained a competitive edge. At the same time, the country-level quotas of the MFA have meant that important shift in investment patterns among developing countries have occurred, with "footloose" investment, associated with labour-intensive production of clothing, having moved from one developing country to another as MFA quotas are reached in the first.

The electronics sector may be broadly characterized as undergoing development in Asia at two levels. Firstly, there is the assembly of final products. Although this is increasingly skill intensive, in so far as labour costs are involved, they are still lower in NICs, ASEAN and especially China than in the European Community. Investment in plants for such production will continue to be affected by possibilities for exports to North America and to Europe. The other main area producing electronic components is one which has so far seen relatively limited, but nevertheless significant activity in developing Asia. The Republic of Korea has steadily increased its production of semiconductors and its world share has grown dramatically. In view of considerable anxiety within Europe to retain production capacities for what is seen as crucial elements in modern manufacturing systems, there may be increased resistance to new producers on world markets from the European side, as well as increased pressure for mergers and state- or community-level support for semiconductor producers in Europe, in order to strengthen these firms against international competition.

4.3 Latin America and the Carribean

Again, the distinction must be made between ACP and non-ACP states. The ACP states in the Latin American region are the Carribean countries. In Latin America, however, the existence of a number of countries with long industrial traditions, offers a scope for new forms of cooperation in the manufacturing sector between Europe and Latin America. Traditionally, links have, in trade and investment terms, been more with North America than with Europe, and the development of closer ties in the manufacturing sphere between Europe and Latin America is inhibited by lack of experience in this field. The accession to the community of Spain and Portugal has provided an impetus towards greater links with Latin America, and it has been reinforced by the search for new markets among several European states. The most significant relations, in a formal sense, remain between individual countries and the European Community; agreements have been signed with a number of individual Latin American states covering economic and technical cooperation and including also cooperation in the education and scientific fields. The main issues for Latin America, however, will be the need, in the search for new trade and investment relations with Europe, to dismantle protectionism in an orderly way, since this will certainly be a condition, on the European side, of any great increase in cooperation.

4.4 Arab countries

The Mediterranean states are increasingly the focus of special cooperation initiatives on the part of the European Community. This include action in the areas of marine resources, environment, regional development and trade and technical cooperation. Underlying this trend is a movement towards increased economic security for the European Community. It is felt that economic instability in countries bordering on the Community will result, if unchecked, in social pressures which in turn will result in increased unemployment and immigration.

Another group of Arab countries is that of the oil producers. Their increasing investments, especially Saudi Arabia, in downstream petrochemical processing, has resulted in a significant addition to worldwide production capacities and the potential for trade conflict in the future. There is heavy dependence on Europe for capital goods, in particular, for which production in Arab countries is on a very small scale. Their manufacturing structures in general are not yet diversified. The dependence and vulnerability are thus quite high. Their export earnings may also be affected in the future by considerable pressures towards a more energy efficient and environmentally friendly energy policy for the European Community. Conservation of energy as a means of reducing dependence on external energy sources is one aspect. The other is the desire to minimize CO_2 production in the light of growing concern about global warming. The proposed energy tax is the first and most obvious indication of such a trend.

5. SUMMARY OF KEY ISSUES

The previous section has dealt with issues that have arisen related specifically to cooperation between the EC and different regional groups of developing countries. The present section seeks to examine key issues that characterize the formation of the European Single Market and to identify the consequences for developing countries, without necessarily being specific about which regions or manufacturing sectors may be most affected.

5.1 The growth and trade effects

As noted, the principal argument for the Single Market within Europe itself is that of the efficiency gains to be achieved by the better functioning of the economies of Europe when linked together into a single, interdependent system in which the factors of production can move freely. The reduction in administrative expenses, together with the achievement of economies of scale as a result of the formation of more efficient and in some cases larger producers, has been translated into specific estimates of the resulting increase in GDP of the Community (in fact, the analysis of the effects of the Single Market were contained in a report called "The costs of non-Europe", indicating specifically the quantitative gains to be expected in terms of growth, employment and international trade). The estimates of growth then made amounted to a net and permanent increase of between 4.5 and 7 per cent of GDP.[2] This in turn could be translated, especially through the trade mechanism, into an impetus for the exports of developing countries and consequently a net increase in their own GDP. Such estimates, however, have varied. One[3] suggests that trade creation and diversion would roughly balance with a consequently neutral effect on developing country manufactured exports. (But this assumes no diversion of investment. See section 5.2 below).

The impact of the Single Market will have a positive impulse deriving from any additional growth in GDP of the European Community. For Africa, for instance, the EC is by far the largest market for manufactured goods, taking no less than 50 per cent of manufactured exports. Any increased economic activity in Europe would in principle translate into increased exports for African countries. However, many African countries are in principle ill equipped to cope with any increasing demand for their products. Their manufacturing sectors are heavily dependent upon imported capital goods and on imports of maintenance skills as well as spare parts for their continued production. Some manufacturing sectors in certain African countries in fact amount to net foreign exchange users. The full benefits of any increase will in any event be dependent upon the achievement of free international trade, especially for those African states not part of the ACP agreements. The Asian and Latin American countries, being in general outside the ACP system, will have even more difficulties. This is especially so if, under the new GATT Uruguay Round, the MultiFibre Arrangement were to continue and, in addition, more reciprocity were demanded in manufactures/service trade.

5.2 Investment, mergers and competition

The problem of assessing the benefits for developing countries in the above section was that it was confined to assessing the possible spillover effects of an increase in GDP in the European Community through international trade to the GDP of developing countries. Yet the formation of the European Single Market will have consequences which are by no means as clearly positive for developing countries as would be a simple increase in European GDP. The first doubt is cast by the operation of investment flows, and the potential changes in the pattern of these flows in the future. This issue has already been touched in the part of the regional level above, especially in connection with Africa. It applies, however, to all developing regions. If the European Community acts as a stronger focus of international investment in the future, this means that less attention may be paid to the potential of manufacturing in developing countries as a target for foreign investment.

One important trend in Europe has been increased investment, either through the establishment of new facilities or through acquisition, by non-EC states within the European Community. In some cases, such as investment by United States and Japanese firms, this can be attributed to the wish to have

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[2] European Economy, no. 35. "The Economics of 1992". March 1988.

[3] Davenport, M.W.S. "The External Policy of the Community and its Effects upon the Manufactured Exports of the Developing Countries". Journal of Common Market Studies. Vol. XXIX, No. 2, December 1990.

a base in the European Community behind the common external tariff. In other cases, such as investment by firms from EFTA countries (particularly Switzerland and Sweden) the investment seems more precautionary with respect to possible future evolution of industrial policy within the Community. The acceleration noted in investment can be attributed to a "bandwagon" effect in which companies, observing that their rivals have invested in Europe, fear for potential weakening in their own position if they make similar investments. A second category of investors is those within the European Community themselves. Clearly this is an equally potent competitor to investment in developing countries. Companies in one EC country have before them the prospect of immediate, unrestrained access to a much larger market. They will almost certainly wish to invest there, by buying a plant in a neighbouring country, rather than setting one up on the other side of the world and facing bureaucratic and other difficulties.

5.3 Enlargement

Not so much the Single Market itself, as the assurance it gives that the countries of Western Europe are committed to a further deepening of economic operation, has been the main impulse which has caused significant shifts in attitudes by non-EEC European states towards membership of the Community. This has been accelerated by the disappearance of the East-West conflict, which has led non-EC states to whom neutrality was particularly important to revise their objections to becoming member of the EC. Austria and Sweden have already applied for membership, and other EFTA countries are expected to follow very soon. There is also increasingly strong expectation that countries of Eastern Europe such as Poland, Czechoslovakia and Hungary would join the Community some years later.

With respect to EFTA states, there has been intensive negotiation over the last year between EFTA and the EC for the construction of a European Economic Area. This would, broadly speaking, allow for full trade in goods and services between EC and EFTA states and would apply many of the principles of the European Single Market directly to relations between EC and EFTA states. Final agreement on this measure has yet to be reached, due to questions of juridical competence and appeals procedures. Pressure for it grew rapidly as a result of concern on the part of EFTA states that they would be excluded from any decision-making in their largest markets. However, the recent moves by many EFTA states towards joining the EC may mean that the EEA agreement will be at best a short-term, intermediate solution, and its finalization may be overtaken by events such as the accession negotiations for Austria and Sweden.

As far as developing countries are concerned, however, the question of enlargement has in the medium term, highly significant implications. The accession to the EC of strong industrial economies such as Sweden, Austria and perhaps Switzerland and Finland means that all the effects that are already noted of the European Single Market will be heightened. The enlarged European Single Market will act as an even stronger magnet for investment and further trends in strengthening and enlarging of European companies in the manufacturing sector, as well as in others, may also be expected.

5.4 Technology issues

5.4.1 Industrial R&D

Increased economic integration in Europe has been characterized by a commitment towards competitive principles and this commitment is expressed both in European Community legislation and administrative practice. This means in turn that there has been a heavy concentration on issues of state subsidy. Any discriminatory support by the governments of EC countries to their own industries is in violation of the treaties and is investigated and where necessary dealt with through legal procedures. At a broader level, there are distinct tendencies of support from the EC commission for European industry as a whole. This is most notably seen in the field of industrial R&D, where support is given through the Framework Programme for science and technology to a wide variety of individual programmes that deal with specific technology areas. The best known and most relevant to manufacturing sector would be the ESPRIT Programme which deals with informatics and the BRITE programme which deals with manufacturing technology (including new materials). These have had a notable effect especially in encouraging partnerships in industrial R&D between firms and institutions in different EC countries, since all of the EC programmes of this type place special emphasis on the endorsement of more cooperation between firms in different EC countries. This can be seen as a way of fostering increased competitive weight for European industry, as well as encouraging progress in the specific technology fields in question. Thus, as far as developing countries are concerned, two main issues are raised by this:

(a) Do the European R&D programmes have the effect of widening the gap in technology terms between developed and developing countries, and in which fields is this most notable?

(b) How could developing countries best be involved in this process, in order to extend the beneficial aspects of such technology partnerships to a wider field?

5.4.2 Industrial standards

As has already been mentioned, the European Single Market has involved considerable work in the harmonization of technical regulations and the bringing forward of a tight and heavily packed agenda of preparation of European standards. As far as developing countries are concerned, the main issues amount to those of access to information and the possibility that this process might result in new obstacles to their manufactures exports.

The first issue is that of the access to the process under way. It is being carried out at a Europe-wide level (and in fact involves both EFTA states as well as the EC states themselves). Developing countries are not directly involved in this process (although Japan and the United States are observers of the European process). For developing countries, the issues of involvement in this decision-making, which may significantly affect their export possibilities, is through the International Standards Organization (the world body which adopts international standards for products in question), these very often being based on 'best practice' national standards. Increasingly these may be European standards or those from individual EC countries such as Germany, France and the United Kingdom, all of which have strong traditions in the preparation of industrial product standards. It should be emphasized here that the standards process at both national and European level is heavily dominated by the manufacturing sector representatives and the question of what standards to adopt is, accordingly, close to competitive and market-based issues. For developing countries, it therefore becomes particularly important to have up-to-date access to information on trends in international product standards and the European product standards in particular. Related issues include the possibility that the standards setting process involves a (perhaps accelerating) trend towards more demanding standards.

5.5 Energy and environment

The environment is increasingly at the centre of industrial policy concerns in all countries, not only in the European Community. However, within the EC there is an added dimension. Trends towards convergence in environment and international trade policy are already growing, and to this may be aded the extra pressures of competition policy. As noted earlier, the application of principles of fair competition is important in many areas of the international trade negotiations. Within the EC it has a strong emphasis because of the strict provisions of the Treaty of Rome and subsequent developments of it with respect to the need for open competition between industries, the prohibition of government discrimination, whether in terms of subsidies, protection or preferential purchasing, for domestic industries. This commitment to competition and to a level playing field for commercial interests means that these principles, if applied more widely, have an impact on developing countries. It could take place in the following way: it may be assumed that, increasingly, manufacturing production in the European Community will be subject to ever more specific and demanding controls as to natural resource depletion, clean production technologies, pollution abatement and recycling of used products. These will impose costs on producers, the rationale being that the costs are of environmental degradation and should be attributed to its primary cause. The increasing regulation may take the form of either specific technical provisions or else in terms of taxation related to the environmental degradation caused. This is very much the case with the proposed new energy tax

Countries outside the EC might find themselves faced with additional tariffs or barriers to their manufactures, because they use production regarded as more harmful to the environment than the processes used by European producers. (Other developed countries and regions may apply similar policies). Technical requirements may extend also to the packaging of products, requiring that provision be made for their recycling and that reculable materials only be used. This would impose additional requirements for producers in developing countries.

6. POLICIES FOR DEVELOPING COUNTRIES AND INTERNATIONAL COOPERATION

The implications of the questions discussed above have to be assessed for developing countries at the national, regional and international level.

National action will be needed to enable industry to compete more effectively at the world level and to enter into and expand in the enlarged European market. Special measures including skill upgrading will be required to raise product quality and to meet new product standards. Access to market information will have to be facilitated. Increased investment promotion efforts will be also required.

At the regional level there is scope for more concerted analysis of the issues raised by the Single Market, and for a broader view of indsutrial development in the negotiation of trade and cooperation agreements. More generally, the policies, mechanisms, and institutions developed in the process of European integration should be considered for their possible application in developing regions. The continued efforts to integrate among Latin America, Africa, Asia and Arab country groups, and their own efforts in areas of trade, industrial policy and technology are carried out in awareness of European trends, but detailed assessment of what are the most promising areas on which to concentrate in the light of EC experience, is needed.

At the international level there may be scope for more detailed discussion and information exchange, especially, given the limited access to market information and techno-economic intelligence in many developing countries. There is also scope for broadening the nature of cooperation between enterprises in Europe and developing countries, including not only investment promotion, but also research and development partnerships, joint marketing agreements, new forms of international sub-contracting that include specific development of capabilities in quality control, upgrading to meet new product standards and packaging requirements and environmental regulations. In general, the structures and emphases of international cooperation may have to have a much higher information content and in their flexibility respond to the rapid changes in world industry. The European Single Market is in part a response to the changes. It may be expected in the future to be a cause of further changes.

ANNEX

Table 1. MVA by industrial branch and regional distribution, 1987

(current billion US dollars)

Industrial branch	Developing countries					Eastern Europe	Developed countries			Total
	Africa	Asia	Latin America	Arab countries	Total		EEC	Other	Total	
Food products	4.28	21.78	27.34	3.42	53.40	1.37	90.34	194.40	284.74	339.50
Beverages	2.11	6.72	9.15	0.95	17.98	3.41	26.05	39.04	65.09	86.48
Tobacco manufactures	1.24	12.70	5.42	1.33	19.37	0.13	15.36	19.91	35.27	54.83
Textiles	3.21	30.04	13.60	2.84	46.84	3.54	39.69	71.10	110.80	161.17
Wearing apparel other than footwear	1.05	10.33	5.10	0.89	16.48	1.20	21.32	43.65	64.97	82.64
Leather and leather substitutes	0.27	2.87	1.60	0.24	4.75	0.34	4.27	4.70	8.97	14.06
Footwear excl. rubber or plastic	0.48	1.24	3.46	0.47	5.18	0.73	6.63	5.97	12.60	18.51
Wood & cork products excl. furniture	0.75	3.71	2.85	0.52	7.30	0.77	13.85	46.28	60.14	68.21
Furniture and fixtures of wood	0.33	1.88	2.03	0.39	4.24	0.71	16.91	29.92	46.84	51.79
Paper and paper products	0.74	5.59	5.88	0.69	12.21	0.81	28.22	87.64	115.85	128.88
Printing, publishing, etc.	0.46	4.83	4.83	0.42	10.12	0.48	43.71	147.63	191.33	201.93
Industrial chemicals	0.77	15.49	12.61	1.03	28.88	2.14	67.74	103.17	170.91	201.93
Chemicals other than industrial	1.48	12.17	13.75	1.63	27.40	1.18	53.92	120.13	174.05	202.64
Petroleum refineries	1.05	16.81	19.10	3.35	36.96	1.98	35.18	30.05	65.23	104.17
Misc. petroleum and coal products	0.17	1.11	1.50	0.22	2.73	0.18	3.27	6.89	10.16	13.13
Rubber products	0.25	5.40	4.04	0.18	9.70	0.57	14.13	24.73	38.87	49.13
Plastic products, n.e.s.	0.59	8.11	4.76	0.54	13.45	0.42	28.86	64.97	93.83	107.70
Pottery, china and earthenware	0.09	1.44	0.84	0.11	2.36	0.21	5.76	5.26	11.02	13.60
Glass and glass products	0.23	2.14	1.69	0.29	4.05	0.64	10.63	19.40	30.04	34.72
Other non-metallic mineral products	2.20	14.30	6.18	3.15	22.68	1.41	31.83	56.03	87.85	111.94
Basic iron and steel industries	1.35	16.04	11.86	1.24	29.25	3.63	39.05	79.17	118.22	151.11
Basic non-ferrous metal industries	0.92	3.54	4.76	0.85	9.23	0.83	15.90	32.26	48.16	58.22
Metal products excl. machinery, etc.	1.97	10.74	[illegible]	1.92	21.29	2.21	66.30	133.93	200.22	223.73
Non-electrical machinery	0.63	20.21	11.83	0.78	32.66	7.41	124.14	248.42	372.56	412.64
Electrical machinery, apparatus, etc.	1.14	27.62	11.28	1.27	40.03	3.78	113.71	228.64	342.35	386.16
Transport equipment	1.78	14.02	11.24	1.44	27.03	4.15	115.87	244.58	360.45	391.63
Professional & scientific equipment	0.18	2.80	1.45	0.17	4.43	0.72	14.74	83.51	98.26	103.40
Manufacturing industries, n.e.s.	0.23	6.21	2.31	0.21	8.76	0.78	9.87	30.75	40.62	50.16

Source: GLO Database, PPD/IPP

Table 2. MVA by industrial branch and regional distribution, 1987

(percentage share in region total)

Industrial branch	Developing countries					Eastern Europe	Developed countries		
	Africa	Asia	Latin America	Arab countries	Total		EEC	Other	Total
Food products	14.29	7.78	13.08	11.20	10.29	2.99	8.54	8.83	8.74
Beverages	7.05	2.40	4.38	3.11	3.47	7.45	2.46	1.77	2.00
Tobacco manufactures	4.14	4.54	2.59	4.35	3.73	0.41	1.45	0.90	1.08
Textiles	10.72	10.73	6.51	9.30	9.03	7.73	3.75	3.23	3.40
Wearing apparel other than footwear	3.51	3.69	2.44	2.91	3.18	2.62	2.02	1.98	1.99
Leather and leather substitutes	0.90	1.03	0.77	0.79	0.92	0.74	0.40	0.21	0.28
Footwear excl. rubber or plastic	1.60	0.44	1.66	1.54	1.00	1.59	0.63	0.27	0.39
Wood & cork products excl. furniture	2.50	1.33	1.36	1.70	1.41	1.68	1.31	2.10	1.85
Furniture and fixtures of wood	1.10	0.67	0.97	1.28	0.82	1.55	1.60	1.36	1.44
Paper and paper products	2.47	2.00	2.81	2.26	2.35	1.77	2.67	3.98	3.55
Printing, publishing, etc.	1.54	1.73	2.31	1.38	1.95	1.05	4.13	6.70	5.87
Industrial chemicals	2.57	5.54	6.03	3.37	5.57	4.67	6.41	4.69	5.24
Chemicals other than industrial	4.94	4.35	6.58	5.34	5.28	2.58	5.10	5.46	5.34
Petroleum refineries	3.51	6.01	9.14	10.97	7.12	4.32	3.33	1.36	2.00
Misc. petroleum and coal products	0.57	0.40	0.72	0.72	0.54	0.39	0.31	0.31	0.31
Rubber products	0.83	1.93	1.93	0.59	1.87	1.24	1.34	1.12	1.19
Plastic products, n.e.s.	1.97	2.90	2.28	1.77	2.59	0.92	2.73	2.95	2.88
Pottery, china and earthenware	0.30	0.51	0.40	0.36	0.45	0.46	0.54	0.24	0.34
Glass and glass products	0.77	0.76	0.81	0.95	0.78	1.40	1.01	0.88	0.92
Other non-metallic mineral products	7.35	5.11	2.96	10.31	4.37	3.08	3.01	2.54	2.70
Basic iron and steel industries	4.51	5.73	5.67	4.06	5.64	7.93	3.69	3.60	3.63
Basic non-ferrous metal industries	3.07	1.27	2.28	2.78	1.78	1.81	1.50	1.46	1.48
Metal products excl. machinery, etc.	6.58	3.84	4.11	6.29	4.10	4.83	6.27	6.08	6.14
Non-electrical machinery	2.10	7.22	5.66	2.55	6.30	16.18	11.74	11.28	11.43
Electrical machinery, apparatus, etc.	3.81	9.87	5.40	4.16	7.72	8.26	10.76	10.38	10.50
Transport equipment	5.94	5.01	5.38	4.72	5.21	9.06	10.96	11.11	11.06
Professional & scientific equipment	0.60	1.00	0.69	0.56	0.85	1.57	1.39	3.79	3.01
Manufacturing industries, n.e.s.	0.77	2.22	1.10	0.69	1.69	1.70	0.93	1.40	1.25

Source: GLO Database, PPD/IPP

Table 3. MVA by industrial branch and regional distribution, 1987

(percentage share in branch total)

Industrial branch	Developing countries					Eastern Europe	Developed countries		
	Africa	Asia	Latin America	Arab countries	Total		EEC	Other	Total
Food products	1.26	6.42	8.05	1.01	15.73	0.40	26.61	57.26	83.87
Beverages	2.44	7.77	10.58	1.10	20.79	3.94	30.12	45.14	75.26
Tobacco manufactures	2.27	23.17	9.88	2.42	35.32	0.35	28.02	36.31	64.33
Textiles	1.99	18.64	8.44	1.76	29.06	2.19	24.63	44.12	68.74
Wearing apparel other than footwear	1.27	12.50	6.17	1.08	19.94	1.45	25.80	52.81	78.61
Leather and leather substitutes	1.95	20.43	11.38	1.74	33.76	2.44	30.35	33.44	63.79
Footwear excl. rubber or plastic	2.62	6.68	18.67	2.56	27.97	3.95	35.84	32.25	68.09
Wood & cork products excl. furniture	1.10	5.43	4.17	0.76	10.71	1.13	20.31	67.86	88.16
Furniture and fixtures of wood	0.63	3.63	3.93	0.76	8.19	1.38	32.66	57.78	90.44
Paper and paper products	0.57	4.34	4.56	0.54	9.47	0.63	21.90	68.00	89.89
Printing, publishing, etc.	0.23	2.39	2.39	0.21	5.01	0.24	21.64	73.11	94.75
Industrial chemicals	0.38	7.67	6.24	0.51	14.30	1.06	33.55	51.09	84.64
Chemicals other than industrial	0.73	6.01	6.79	0.80	13.52	0.58	26.61	59.28	85.89
Petroleum refineries	1.01	16.14	18.34	3.22	35.48	1.90	33.77	28.85	62.62
Misc. petroleum and coal products	1.32	8.46	11.42	1.[illegible]	21.20	1.40	24.88	52.52	77.40
Rubber products	0.51	11.00	8.23	0.36	19.74	1.16	28.77	50.33	79.10
Plastic products, n.e.s.	0.55	7.53	4.42	0.50	12.49	0.39	26.79	60.32	87.12
Pottery, china and earthenware	0.65	10.58	6.16	0.79	17.38	1.57	42.34	38.71	81.05
Glass and glass products	0.65	6.16	4.85	0.82	11.67	1.83	30.62	55.88	86.50
Other non-metallic mineral products	1.97	12.78	5.52	2.81	20.26	1.26	28.43	50.05	78.48
Basic iron and steel industries	0.89	10.62	7.85	0.82	19.36	2.40	25.85	52.39	78.24
Basic non-ferrous metal industries	1.59	6.09	8.18	1.47	15.85	1.43	27.31	55.40	82.72
Metal products excl. machinery, etc.	0.88	4.80	3.84	0.86	9.52	0.99	29.63	59.86	89.49
Non-electrical machinery	0.15	4.90	2.87	0.19	7.92	1.80	30.09	60.20	90.29
Electrical machinery, apparatus, etc.	0.30	7.15	2.92	0.33	10.37	0.98	29.45	59.21	88.66
Transport equipment	0.45	3.58	2.87	0.37	6.90	1.06	29.59	62.45	92.04
Professional & scientific equipment	0.18	2.71	1.40	0.17	4.28	0.69	14.26	80.77	95.03
Manufacturing industries, n.e.s.	0.46	12.39	4.62	0.43	17.47	1.55	19.67	61.32	80.99

Source: GLO Database, PPD/IPP

Table 4. Comparison of EEC total trade and trade with developing countries, 1987

Industrial branch	Imports			Exports		
	Total (billion current US $)	Developing countries (billion current US $)	Developing countries' share in Total (per cent)	Total (billion current US $)	Developing countries (billion current US $)	Developing countries' share in Total (per cent)
Food, beverages, tobacco	83991.50	18479.15	22.00	79415.45	10817.63	13.62
Textiles, clothing, leather products	82858.35	21907.51	26.44	78359.61	5489.99	7.01
Wood and cork products	13674.50	1121.21	8.20	14706.72	1149.73	7.82
Paper, paper products, printing	27139.10	481.67	1.77	20933.39	1981.65	9.47
Chemical-related products	146425.83	10400.48	7.10	164004.13	22191.29	13.53
Non-metallic products	13390.52	498.60	3.72	18593.83	2367.39	12.73
Ferrous and non-ferrous metals	47859.21	3630.76	7.59	53133.37	6997.52	13.17
Machinery, appliances, transport equipment	336795.30	17278.03	5.13	396293.82	58048.73	14.65
Industrial products, n.e.s	12639.91	3472.17	27.47	13335.33	2145.38	16.09
Total manufactured products	764774.22	77269.57	10.10	838775.65	111189.33	13.26

Source: UNSO trade statistics, PPD/IPP/REG