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CURRENT ISSUES OF IMPORTANCE TO THE ESCWA REGION (COMMISSION RESOLUTION 119 (X))

IMPACT OF THE SINGLE EUROPEAN MARKET ON THE ESCWA MEMBER COUNTRIES

Executive summary

Note by the Executive Secretary

95-0169

CONTENTS

CONTENTS (continued)

LIST OF TABLES

Abbreviations

Aggregate measure of support (AMS)
Air Travel Safety (Aerosafe)
Bank for International Settlements (BIS)
Committee on Banking Regulations and Supervisory Practices (Basle Committee)
Common Agricultural Policy (CAP)
European Union (EU)
European Advanced Materials (Brite/Euram)
European Strategic Programme for Research and Development on Information Technology and Telecommunications (ESPRIT)
European Research Cooperation Agency (EUREKA)
General Agreement on Tariffs and Trade 1994 (GATT-94)
Generalized System of Preferences (GSP)
Gross domestic product (GDP)
Gulf Cooperation Council (GCC)
International Monetary Fund (IMF)
International Scientific Cooperation scheme (ISC)
Middle East - North African (MENA)
Most favoured nation (MFN)
MultiFibre Arrangement (MFA)
North American Free Trade Agreement (NAFTA)
Organization for Economic Cooperation and Development (OECD)
Research and development (R&D)
Research and technical development (RTD)
GATT-94 Agreement on the Application of Sanitary and Phytosanitary Measures (SPM)
Science and technology (S&T)
Science and Technology for Development (STD)
Second Banking Directive (SBD)
Single European Market (SEM)
Standard Industrial Trade Classification (SITC)
Supplementary Trade Mechanism (STM)
GATT-94 Agreement on Technical Barriers to Trade (TBT)
United Nations Conference on Trade and Development (UNCTAD)
World Trade Organization (WTO)

Introduction

1. The Single European Market (SEM) was designed to improve the performance of the European economy, and more specifically, its competitiveness *vis-à-vis* the rest of the world. The means chosen were internal measures directed at increasing the efficiency of production and markets within Europe. Conventional tariff and non-tariff barriers to trade had already been eliminated among the European Community members so that the SEM programme was concentrated on eliminating other differences which had proved to be barriers to a full internal market. Areas of concentration included the harmonization of standards and of certain taxes, and the new administrative processes required by the centralization of decision-making in come areas.

2. The objectives of the harmonization exercise are to reduce internal barriers and remove barriers to competition, on equal terms within the European Union (EU), but inevitably other considerations have also played a part. On taxation, for example, harmonizing the rates of indirect taxes will remove some "unfair" differences for producers and traders; however, it has also been used as an opportunity for levelling general taxes upwards, not only to remove differences among countries' contributions to the Community's costs but to increase total revenue. The objective of harmonizing standards for products and services has not been simply to clarify competition among suppliers, but in many cases to raise the lowest standards to a higher level, if not always to those of the strictest EU member. Countries with high standards were unwilling to lower them, while those with lower standards normally found it politically difficult to challenge improvements resulting from the implementation of higher standards. These influences, which will of course continue to operate as taxes and standards evolve from the levels set in 1992, will gain increasing importance for third countries.

3. One of the most important results of the SEM initiative has been the increased opportunities for mobility of both products and factors of production within the EU.

4. This harmonization process gives rise to various types of effects on the rest of the world, which derive from: (a) the macroeconomic effects of completion of the SEM; (b) the various legal, administrative and other intermediate steps required as part of the process; and (c) the reorientation of the EU and its members towards a more collective and formal relation with other countries and multilateral organizations.

5. Trade relations between the EU and many ESCWA member countries are governed by various agreements concluded either collectively, such as the cooperation agreement with the Gulf Cooperation Council (GCC), or separately, such as the bilateral cooperation agreements with Egypt, Jordan, Lebanon, the Syrian Arab Republic and Yemen, as part of the EU Mediterranean policy.

6. Preferential and restrictive practices applied to ESCWA exports to the EU existed prior to the 1992 Single European Market. Non-competitive and off-season agricultural products enter the EU free of tariff. During regular seasons, however, the prices of competitive imports cannot exceed determined "reference/entry prices".

7. A review of the main recent changes in the institutional set-up of international trade in agricultural products, especially the single market developments in the EU, as well as the state of trade flows between the EU and ESCWA member countries and the obstacles with regard to fruit and vegetable exports from the region, brings to the fore a number of conclusions regarding the impact of these changes on trade in agricultural commodities, quality requirements and transfer of technology in the ESCWA region.

8. Fears expressed in various circles that the SEM and the 1992 changes in the Common Agricultural Policy (CAP) would create a more restrictive import régime seem unjustified. However, there is nothing to suggest that these developments will benefit the ESCWA member countries directly in their export efforts.

9. Under the cooperation agreements with a number of ESCWA member countries, all manufactured goods (excluding textiles, which are subject to quotas under the MultiFibre Arrangement [MFA], and petrochemicals) freely enter the markets of the Union at zero tariff, yet they have to compete with domestic products as well as products from the rest of the world in terms of quality and price levels.

10. Under the Generalized System of Preferences (GSP), refined oil from the region enters the EU at zero tariff while petrochemical products are subject to tariffs ranging between 7 and 15 per cent. The EU, with a large surplus in petrochemicals, intends to rationalize this industry during the coming 12 years and thus will continue to impose tariffs until that process is completed. Currently, there is an EU GCC Energy Committee which meets regularly to discuss related issues. Ultimately, the EU will be a net importer of the GCC category of petrochemicals. Meanwhile, the EU considers that this category of GCC petrochemicals is "highly subsidized" and should, therefore, be subjected to anti-subsidy measures if the GCC countries include these products under GATT-94.

11. The concluded Uruguay Round and consequent liberalization of world trade do not allow for the continuation of the preferential treatment granted by the cooperation agreements between the EU and a number of ESCWA member countries which are not members of GATT since it is agreed that the most favoured nation (MFN) clause should apply to all members of WTO/GATT-94. The EU, however, might be willing to continue this treatment for ESCWA member countries that are not members of WTO/GATT-94 and justify it by citing the fact that there has been a free trade area between the EU and these countries since colonial times. In case other GATT members object, the EU could resort to the "waiver".[1/]

12. The EU is currently trying to formulate and implement a new Mediterranean policy that will replace current cooperation agreements with the countries of the region with "partnership" agreements containing elements addressing "mutual benefits" and reciprocity. An expanded agreement is planned with Egypt to replace the current cooperation agreement covering, besides trade in goods, economic and social cooperation. Jordan is currently evaluating a new EU partnership proposal. This new EU strategy is seen as an essential part of the ongoing peace process in the region, and is aimed at creating an integrated Middle Eastern area.

13. More and more is being out-sourced by the EU to third countries for the supply of lower value-added/low-technology industrial products. A pertinent example is the boom in textile exports from Middle East - North African (MENA) countries to the EU, despite restrictions and quotas. Apparently the advantages for EU industries in relocating production (or subcontracting) have broken the protectionist market access of the EU. Moreover, with GATT-94 the highly protectionist character of the CAP has also begun to change.

14. Although crude oil was not explicitly on the agenda of the Uruguay Round negotiations, some quarters in Europe and WTO/GATT would tend to consider that crude oil is not excluded from the principles adopted under GATT-94. Thus, upon joining WTO/GATT-94, oil-exporting countries in the region will need to negotiate for the explicit exclusion of crude oil, since, under current principles, the inclusion of crude oil as another commodity would entail the dismantling of the Organization of Petroleum Exporting Countries (OPEC), which is seen as a cartel distorting the free determination of oil prices.

[1/] GATT article XXV:5 allows granting of waivers from some GATT obligations and specifies their terms and conditions.

15. Ultimately, the main challenge to ESCWA exports to the EU will be to cope with competition from other sources, particularly new economic powers such as South Asia and South-East Asia, Eastern Europe and the EU itself as a result of its vertical integration and horizontal expansion.

I. IMPACT OF THE SINGLE EUROPEAN MARKET ON FOREIGN TRADE OF THE ESCWA REGION

A. Relative importance of trade between the European Union and the ESCWA region

16. The European Union is the world's largest trading bloc, with EU member countries accounting, in 1991, for almost 32 per cent of the world's gross domestic product (GDP), 6.7 per cent of its population and 40 per cent of its merchandise trade: this is 5 times the 8 per cent contribution of the United States and about 10 times the 4.1 per cent contribution of Japan (see table 1).

Table 1. The European Union: some basic indicators (1991)

					Percentage shares		
	World	EU	USA	Japan	EU	USA	Japan
GDP ($ billion)	22 391	7 133	5 611	3 346	31.9	25.1	14.9
Population (million)	5 383	362	252	124	6.7	4.7	2.3
Merchandise trade ($ billion)	7 093	2 830	564	289	40.0	8.0	4.1

Sources: UNCTAD, Handbook of International Trade and Financial Statistics, 1993; and International Monetary Fund, Direction of Trade Statistics Yearbook, 1994.

1. Geographical distribution of EU foreign trade

17. The bulk of the EU trade is with developed countries and is mainly intra-EU trade. The share of exports to developed countries of total EU exports increased from 73 per cent in 1980 to 81 per cent in 1992 accompanied, during the same period, by an increase in the share of intra-EU exports from 58 per cent to 62 per cent. EU imports from developed countries, which represented 71 per cent of total imports in 1980, also increased to 81 per cent in 1992 and are accounted for mainly by the rise in the share of intra-EU imports from 52 per cent to 59 per cent.

18. In contrast, the EU trade with developing countries during the period 1980-1992 was on the decline for both exports and imports. The relative share of EU exports to developing countries dropped from 16 per cent to 12 per cent while the share of EU imports dropped from 20 per cent to 13 per cent. However, EU trade with Asia (excluding the ESCWA region) has witnessed an improvement, reflected by an increase in the share of EU exports by around two percentage points (from 3.1 per cent in 1980 to 4.9 per cent in 1992) and a doubling of the share of EU imports (from 3.4 per cent in 1980 to 6.5 per cent in 1992).

19. The EU trade with the ESCWA region, although modest, has witnessed further reductions. During the period 1980-1992, the ESCWA share in EU total exports was cut by half, from 4.7 per cent in 1980 to 2.2 per cent in 1992, while the ESCWA share in total EU imports in 1992 was one sixth of its 1980 level, from

8.8 per cent to only 1.4 per cent, mainly as a result of the drop in world oil prices and the drastic cut, as of 1982, in quantities of oil imported from the region.

Table 2. The European Union: geographical distribution of trade by region, 1980-1992
(Percentages)

		Developed countries			Developing countries									Rest of the world
						ESCWA region			Other developing regions					
	Total Billion$	Total	Intra-EU	Others	Total	Total	GCC	Other	Total	Asia[a]	Latin Am.	Africa[b]	North Africa[c]	
EXPORTS														
1980	665.9	73.1	57.8	15.2	16.0	4.7	2.5	2.2	11.3	3.1	2.9	2.8	2.5	11.0
1981	612.4	70.6	54.8	15.8	17.9	5.8	3.0	2.8	12.1	3.4	3.2	2.4	3.1	11.5
1982	590.0	72.1	56.2	16.0	17.7	6.5	3.5	3.0	11.2	3.6	2.6	2.6	2.4	10.2
1983	598.7	74.8	54.4	20.4	16.1	5.8	3.4	2.4	10.3	3.8	2.3	1.8	2.4	9.1
1984	613.2	76.3	53.9	22.3	15.2	5.1	3.0	2.1	10.1	3.9	2.3	1.7	2.2	8.6
1985	649.6	77.8	54.4	23.5	14.1	4.2	2.3	1.9	9.9	4.2	2.1	1.7	1.9	8.0
1986	796.5	80.1	56.7	23.5	12.6	3.2	1.8	1.3	9.5	4.2	2.2	1.6	1.5	7.2
1987	957.5	81.6	58.5	23.1	11.7	2.6	1.6	1.0	9.1	4.2	2.1	1.6	1.2	6.7
1988	1064.6	81.9	59.5	22.4	11.6	2.5	1.5	1.0	9.1	4.4	1.9	1.6	1.2	6.5
1989	1135.5	81.6	59.7	21.9	11.7	2.5	1.5	0.9	9.3	4.6	1.9	1.5	1.3	6.6
1990	1367.3	81.7	60.6	21.1	11.1	2.1	1.2	0.8	9.0	4.5	1.9	1.4	1.3	7.3
1991	1371.3	81.6	61.8	19.8	11.4	2.1	1.5	0.7	9.3	4.7	2.1	1.3	1.2	7.2
1992	1450.4	80.7	61.7	19.0	12.0	2.2	1.6	0.6	9.7	4.9	2.2	1.4	1.2	6.9
IMPORTS														
1980	729.1	71.0	52.3	18.7	20.4	8.8	6.6	2.2	11.6	3.4	3.1	2.6	2.5	8.6
1981	645.1	70.8	51.6	19.2	20.5	9.4	8.1	1.4	11.1	3.3	3.3	1.8	2.7	8.7
1982	615.3	72.0	53.4	18.7	18.0	6.4	5.3	1.1	11.5	3.3	3.3	1.6	3.2	10.0
1983	628.2	73.8	51.4	22.3	17.1	4.7	3.5	1.2	12.4	3.8	3.8	1.7	3.2	9.1
1984	636.5	73.8	51.2	22.6	16.9	4.0	2.6	1.4	13.0	4.0	3.8	2.2	2.9	9.2
1985	664.0	75.1	57.2	18.0	16.4	3.4	1.9	1.4	13.0	3.9	3.7	2.3	3.1	8.5
1986	781.4	80.1	57.0	23.1	13.4	2.3	1.6	0.8	11.0	4.3	2.8	2.1	1.8	6.5
1987	956.8	80.9	57.9	23.0	12.7	2.0	1.2	0.8	10.7	4.9	2.5	1.5	1.7	6.4
1988	1082.8	81.2	57.7	23.5	12.6	1.5	1.0	0.6	11.1	5.4	2.6	1.6	1.5	6.2
1989	1167.2	80.7	57.2	23.6	12.8	1.8	1.1	0.7	11.0	5.4	2.6	1.5	1.6	6.5
1990	1413.4	80.9	57.9	22.9	12.6	1.6	1.0	0.6	11.0	5.4	2.5	1.3	1.8	6.9
1991	1458.4	80.6	57.6	23.0	13.0	1.5	1.1	0.4	11.6	6.2	2.4	1.2	1.8	6.7
1992	1516.7	81.4	58.7	22.7	12.9	1.4	1.0	0.4	11.5	6.5	2.2	1.1	1.6	6.3

Source: IMF, Direction of Trade Statistics Yearbook; various issues.

a/ Excluding the ESCWA region.
b/ Excluding North Africa.
c/ Excluding Egypt.

2. Geographical distribution of the ESCWA region's foreign trade

20. Trade of the ESCWA region is mainly with the developed countries. In 1980, the ESCWA region exported 60 per cent of its total exports to the "triad" (EU, United States of America and Japan) and imported

62.5 per cent of its total imports from them. Since then, the share of the triad in total imports of the ESCWA region fluctuated within the range of 64.4 per cent and 57 per cent, ending in 1992 at 63.6 per cent, while the region's exports to the triad showed a definite decline, from 60.3 per cent in 1980 to 53.6 per cent in 1992.

Table 3. ESCWA: geographical distribution of trade by region, 1980-1992

(Percentages)

Year	Developing regions					EU	USA	Japan	The triad[4]	Eastern Europe of ex-USSR	China	Rest of the world	Total (Less developing countries)
	Total	Asia[1]	Latin America	Africa[2]	North Africa[3]								
Exports													
1980	23.9	17.2	1.5	4.5	0.7	31.0	9.9	19.4	60.3	1.2	0.2	14.3	76.1
1981	25.9	19.8	1.9	3.2	1.0	29.0	9.7	19.9	58.6	0.8	0.1	14.4	74.1
1982	30.8	23.0	2.1	4.7	1.0	24.0	5.5	22.3	51.8	1.2	0.1	16.0	69.2
1983	30.8	23.5	1.9	4.4	1.0	19.6	4.6	25.8	50.0	1.6	0.2	17.4	69.2
1984	30.3	23.8	2.1	3.2	1.2	16.4	5.9	27.6	49.9	1.6	0.2	18.0	69.7
1985	27.8	21.5	2.2	3.5	0.6	18.0	4.3	29.5	51.8	1.8	0.2	18.6	72.2
1986	27.5	21.9	1.9	3.0	0.7	21.0	7.2	23.5	51.7	2.3	0.2	18.3	72.5
1987	27.7	20.9	4.6	1.6	0.6	21.5	9.3	22.3	53.1	2.0	0.3	17.0	72.3
1988	35.5	29.3	3.8	1.5	0.9	19.0	12.1	18.1	49.2	1.9	0.5	12.8	64.5
1989	33.1	27.6	3.4	1.4	0.7	18.6	14.1	18.1	50.8	2.5	0.4	13.2	66.9
1990	33.2	27.7	3.0	1.7	0.8	16.8	15.0	20.2	52.0	2.4	0.3	12.1	66.8
1991	32.0	27.9	1.8	1.6	0.7	18.3	12.4	23.3	54.0	1.5	0.6	11.9	68.0
1992	33.4	29.5	1.7	1.5	0.7	18.7	11.9	23.0	53.6	1.5	0.7	10.8	66.6
Imports													
1980	19.7	17.7	0.9	0.5	0.6	34.3	13.3	14.9	62.5	3.3	1.1	13.4	80.3
1981	19.6	17.8	0.7	0.7	0.4	33.7	13.8	14.6	62.1	4.1	1.1	13.2	80.4
1982	17.5	15.2	0.7	1.2	0.3	35.3	13.7	15.4	64.4	3.4	0.9	14.2	82.8
1983	17.7	15.5	0.7	1.1	0.4	34.8	14.0	15.4	64.2	3.3	0.9	14.0	82.3
1984	20.5	17.7	1.1	1.1	0.6	33.5	12.3	14.9	60.7	3.6	0.8	14.4	79.5
1985	22.4	19.3	1.1	1.5	0.5	33.3	11.6	14.1	59.0	3.5	0.9	14.3	77.6
1986	20.5	17.5	1.1	1.0	0.9	35.7	12.4	12.0	60.1	3.4	2.7	13.4	79.5
1987	19.0	16.5	1.6	0.6	0.3	35.5	12.9	11.0	59.4	3.2	2.0	16.4	81.0
1988	23.3	20.4	2.0	0.6	0.3	33.2	12.3	11.5	57.0	3.8	1.7	14.2	76.7
1989	23.5	20.6	2.1	0.5	0.3	33.4	13.6	10.6	57.6	2.8	1.8	14.3	76.5
1990	23.0	20.4	1.5	0.7	0.4	31.6	11.5	14.7	57.8	1.9	2.0	15.3	77.0
1991	23.0	20.8	1.2	0.7	0.3	34.0	15.9	10.8	60.7	1.4	1.5	13.4	77.0
1992	20.6	18.2	1.6	0.5	0.3	35.2	16.8	11.6	63.6	1.2	1.7	12.9	79.4

Source : IMF, Direction of Trade Statistics Yearbook; various issues.

a/ Including the ESCWA region.
b/ Excluding North Africa.
c/ Excluding Egypt.
d/ EU + USA + Japan.

21. Contrary to the evolution of the EU in the distribution of its trade, the ESCWA region is increasingly trading with the developing countries. The share of exports to the developing countries in total exports of the ESCWA region increased by 10 percentage points during the period 1980-1992, moving from a share of 23.9 per cent in 1980 to 33.4 per cent in 1992. This increase is accounted for mainly by exports to the rest of

Asia. Asia's share in total exports of the ESCWA region increased by 12 percentage points (from 17.2 per cent in 1980 to 29.5 per cent in 1992).

22. Most of the redirection of the exports of the ESCWA region towards the developing countries was to the detriment of exports to the EU. The fall in the share of exports to the EU from 31 per cent in 1980 to a mere 19 per cent in 1992, however, is mainly a reflection of the fall in both world oil prices and quantities of crude oil imported by the EU. Thus, although the EU was a main trading partner of the ESCWA region in the early 1980s, it has since then been displaced, in so far as exports are concerned, by Japan and exports to developing countries (mainly Asia). The EU, however, retained its relative importance as a source of supply to the region throughout the period 1980-1992 despite the decline in the value of ESCWA region imports since 1983.

3. Trade of the ESCWA region with the European Union

(a) ESCWA exports to the European Union

23. On a group level, the decline in the share of the EU in total exports was only evident in the exports of major oil-exporting countries, as it dropped by almost 50 per cent between 1980 and 1992, from 31 per cent to 16 per cent: the share of the EU in the exports of other ESCWA member countries was higher to start with and increased from 39 per cent in 1980 to 45.3 per cent in 1992 with moderate fluctuations.

24. For major oil-exporting countries the main exports to the EU are crude oil and petroleum products (section [3] in SITC Rev.3), and chemicals (section [5]). Machinery and transport equipment (mainly re-exports) and export of miscellaneous manufactured articles (SITC, sections [7] and [8] respectively) were significant in some years.

25. The exports of "other ESCWA member countries" are more diversified and include crude materials, animal and vegetable oils and fats, chemicals, manufactured goods, machinery and transport equipment (mainly re-exports) (sections [2] to [7] in SITC Rev.3) in addition to some exports of crude oil and petroleum products.

26. The main sources of competition against oil and gas from the ESCWA region are: the ex-Soviet Union, the Islamic Republic of Iran, North Africa and Europe. The independent republics in Central Asia are potential sources of gas and oil. As for agricultural products, the main sources of competition are Europe, the North African countries, Israel and Turkey. North Africa, South Asia and South-East Asian countries, Eastern Europe and Turkey are the region's main competitors in manufactured goods.

27. On a country level, the EU is not a very important market for the exports of Bahrain, Oman, Qatar, the United Arab Emirates (except for 1980) and Jordan; it is a significant market for Egypt, Iraq, Kuwait, Lebanon, Saudi Arabia, the Syrian Arab Republic and Yemen.

(b) ESCWA imports from the European Union

28. The importance of the EU to the ESCWA region has been, so far, more significant as a source of supply than as an outlet for exports. Both major oil-exporting and diversified groups of countries experienced similar patterns in the share of imports from the EU in their total imports. This share, close to 35 per cent, is common to the region as a whole as well as to the two major sub-groups of countries.

Table 4. Share of exports to imports from the European Union in total exports/imports of countries in the ESCWA region, selected years

(Percentages)

	1980	1983	1985	1987	1989	1990	1991	1992
Exports(f.o.b)								
GCC	**30.7**	**18.9**	**16.5**	**19.7**	**17.1**	**15.3**	**16.5**	**15.8**
Bahrain	0.5	3.3	4.0	5.0	1.4	2.8	4.3	5.6
Kuwait	24.8	23.8	31.6	23.3	23.6	23.9	55.0	30.3
Oman	21.4	14.4	3.1	8.1	7.7	10.3	2.1	2.3
Qatar	35.3	17.0	15.4	11.1	4.7	2.3	2.3	2.6
Saudi Arabia	32.7	19.4	16.9	19.8	19.7	17.7	23.6	22.5
United Arab Emirates	27.5	14.2	5.9	10.0	8.3	8.2	8.5	7.4
Others	**38.6**	**29.5**	**34.9**	**37.2**	**33.0**	**31.9**	**34.0**	**45.3**
Iraq	34.5	29.8	27.8	40.4	27.2	24.2	10.1	...
Egypt	42.7	36.7	37.9	42.8	42.5	15.4	28.3	54.8
Jordan	1.4	3.7	3.9	6.8	4.0	3.6	3.1	8.8
Lebanon	6.6	5.2	10.3	14.7	22.4	23.2	22.7	19.2
Syrian Arab Republic	61.7	30.0	47.9	52.5	31.0	41.4	45.7	45.7
Yemen, Arab Republic	24.8	22.8	17.9	20.9	45.3	53.5	47.6	...
Yemen, Democratic	21.7	53.7	54.2	67.2	61.2	47.0	...	...
ESCWA region total imports (c.i.f.)	**31.0**	**19.6**	**18.0**	**21.5**	**18.6**	**16.8**	**18.3**	**18.7**
GCC	**34.3**	**34.9**	**33.1**	**35.7**	**32.2**	**32.6**	**34.6**	**35.2**
Bahrain	12.8	22.7	20.3	24.4	21.1	16.8	22.4	23.1
Kuwait	30.7	33.6	32.3	34.1	29.4	33.4	24.8	42.2
Oman	33.1	35.5	36.0	36.6	28.5	27.4	31.4	31.9
Qatar	40.2	40.9	52.1	41.1	37.6	41.9	44.2	38.3
Saudi Arabia	33.6	33.8	32.5	38.8	32.8	34.1	38.5	37.5
United Arab Emirates	35.0	33.4	36.1	37.7	31.1	29.0	31.3	31.1
Others	**34.3**	**34.3**	**33.8**	**35.0**	**37.3**	**28.7**	**32.3**	**35.4**
Iraq	42.0	44.4	33.4	27.2	36.0	41.8	40.0	...
Egypt	37.3	36.5	35.3	36.4	38.6	22.7	27.6	31.4
Jordan	36.4	28.0	27.4	26.5	29.2	28.6	29.9	35.1
Lebanon	41.3	41.9	42.2	38.1	45.1	40.7	46.8	45.6
Syrian Arab Republic	33.5	30.7	27.6	43.7	42.0	40.4	38.8	40.9
Yemen, Arab Republic	30.2	29.5	37.9	31.8	32.6	30.6	28.2	...
Yemen, Democratic	13.2	26.1	28.9	22.8	19.6	21.1	...	...
ESCWA region total	**34.3**	**34.8**	**33.3**	**35.5**	**33.4**	**31.6**	**34.0**	**35.2**

Source: IMF, Direction of Trade Statistics Yearbook, various issues.

Notes: ... not available; f.o.b. = free on board; and c.i.f. = cost, insurance, freight.

29. Most ESCWA member countries are traditional importers from the EU, except for Bahrain and the former People's Democratic Republic of Yemen.[2/] The EU share in Bahrain's total imports grew, however, from 12.8 per cent in 1980 to 23 per cent in 1992. The same pattern was witnessed in the case of the former People's Democratic Republic of Yemen for the period 1980-1990.

(c) ESCWA region trade balance with the European Union

30. The trade balance between the ESCWA region and the EU shifted from a surplus of $30.7 billion in 1980 to a deficit of $12.3 billion in 1986. However, with the weakening in the level of the ESCWA region's imports from the EU, the trade deficit shrank to its lowest level, $5.3 billion in 1990. The deficit, however, leaped again to $10.1 billion in 1991, and to $14.3 billion in 1992, owing to the large jump in the region's imports from the EU following the Gulf war.

31. The deficit in the ESCWA region's trade with the EU is mainly explained by the fall in oil prices and by the drastic cut since 1982 in the quantities of crude oil exported to the EU by Saudi Arabia and, to a lesser extent, the United Arab Emirates and Kuwait.

Table 5. The ESCWA region's trade balance with the European Union, 1980-1992

(Billions of US dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Exports	59.7	53.0	31.9	20.8	16.4	14.9	13.7	16.0	13.3	16.1	18.0	18.4	19.1
Imports	29.0	35.1	39.1	33.5	29.5	25.7	26.0	26.4	23.3	23.2	23.3	28.5	33.5
Trade balance	**30.7**	**17.9**	**-7.2**	**-12.7**	**-13.1**	**-10.8**	**-12.3**	**-10.4**	**-10.0**	**-7.0**	**-5.3**	**-10.1**	**-14.4**
ESCWA region crude oil exports to Western Europe[a/]													
Iraq	1 308	447	424	435	594	678	752	890	970	870	575	–	–
Kuwait	438	164	62	91	116	123	326	210	265	270	227	19	131
Qatar	207	183	115	73	106	48	48	36	5	15	11	6	6
Saudi Arabia	3 913	3 827	1 994	999	733	605	1349	705	786	879	1 042	1 707	1738
United Arab Emirates	452	327	174	331	274	147	173	185	90	160	210	200	193
Total	**6 318**	**4 948**	**2 768**	**1 929**	**1 822**	**1 600**	**2 648**	**2 027**	**2 116**	**2 194**	**2 065**	**1 932**	**2 068**
Average oil $ price/barrel	36.01	34.27	31.71	30.05	28.06	27.52	13.36	17.73	14.24	17.31	22.26	18.66	18.40

Sources: Compiled by the ESCWA secretariat from IMF, Direction of Trade Statistics Yearbook, various issues and OPEC, Annual Statistical Bulletin(s), 1984, 1987, 1990 and 1993.

a/ Thousand barrels/day.

[2/] On 22 May 1990 the People's Democratic Republic of Yemen and the Yemen Arab Republic merged to form a single State, the Republic of Yemen (short form "Yemen").

B. The various elements of the impact of the Single European Market on foreign trade of the ESCWA region

32. In assessing the impact of the SEM on trade with third countries, a number of positive and negative effects have to be considered. The likely positive effects are: (a) trade creation (presumed to result from a wealthier EU, i.e. faster GDP growth generated by the SEM); (b) improved terms of trade (increased demand from a wealthier EU, mainly for primary goods, pushing world prices upwards); and, (c) a reduction in the prices of EU exports, mainly of manufactures (brought about by SEM-generated improvement in productivity and competition). The negative effects, however, will be due to: trade diversion (from sources outside the SEM market to trade partners inside the market owing to the lower cost of SEM production); and more protectionism (owing to more severe EU community-wide non-tariff barriers).

33. Despite the acknowledgement of these effects in theory, it is still difficult to make accurate quantitative estimates of the external effects of the SEM, especially for developing countries. One reason is that some decisions, which will affect primary and manufactured products of particular interest to developing countries, have still not been made. A second reason is that the economic and industrial responses/reactions within EU member countries to the measures already taken under the SEM remain uncertain and difficult to quantify, making it hard to estimate the impact of such responses on the rest of the world. A third is that many of the SEM effects interact inextricably with other international negotiations which have only just been completed, including the Uruguay Round, the MFA and the GSP. When these effects depend on changes in relative EU preferences or trade barriers, they cannot be known until the details of the EU commitments under the new multilateral arrangements are known.

1. Trade creation effect

34. Estimates of the value of expected trade creation depend critically on assumptions as to the incremental increase in GDP of the EU that could be attributed to the SEM. In calculating the impact of the SEM on trade creation for the ESCWA region, a GDP rate of increase of 5 per cent in the EU is assumed. On that assumption, exports of primary goods to the EU could increase by 6 per cent or by $1.2 billion. At the country level, the main beneficiaries are crude oil exporters to the EU, provided that the carbon tax proposal is not pursued or turns out to have an insignificant impact. It is estimated that the region's exports of manufactures will rise by $0.5 billion, with refined petroleum and machinery and transport equipment (mainly re-exports) being the main sources of export gains. Saudi Arabia and Kuwait account for more than half of the regional export increase. The other main beneficiaries are likely to be the United Arab Emirates and Egypt.

2. Trade diversion effect

35. As for EU trade diverted from ESCWA member countries, the loss is particularly high in product groups of importance to the region—chemicals and machinery and transport equipment (mainly re-exports). It is low where there are limited opportunities for economies of scale and other cost reductions through more intra-EU trade and rationalization in the EU, such as oil refining. As a result, the overall amounts of diversion are high relative to the total manufactured exports of Jordan, Bahrain and Oman and low in the Syrian Arab Republic, Iraq, Kuwait and Yemen, especially when competition from other sources of supply is taken into account.

3. Terms of trade effect

36. As for the terms of trade effects, lower EU export prices for manufactured goods that are not produced in developing countries should be one of the external benefits of the SEM. The overall improvement in the regional trade balance is a modest $395 million or 1.3 per cent of ESCWA member countries' imports of manufactured products from the EU; the gains are spread evenly throughout the member countries. The effects of higher world prices for primary goods are even more limited. Prices are estimated to rise by relatively small amounts, 0.9 per cent in the case of food and tobacco. This is small because of the assumption that the administered prices and subsidized exports associated with Europe's CAP are not adjusted as part of the SEM. The rise for other products is slightly better: 1.1 per cent in agricultural raw materials and 3.4 per cent in ores and metals. These price changes have a negative impact on the importers of primary goods, while exporters are net beneficiaries.

4. Overall effect on trade

37. To sum up, the total SEM effect (trade creation, trade diversion and terms of trade) is estimated at $1.4 billion or 1.2 per cent of the region's total exports. All ESCWA member countries are beneficiaries except for Bahrain and Egypt, which in essence neither gain nor lose. The two main beneficiaries, however, are the Syrian Arab Republic (3.1 per cent) and (potentially) Yemen (3.4 per cent). Different estimates for the EU GDP growth rate generated by the SEM would yield different results for trade creation, trade diversion and terms of trade.

38. The conclusion reached from estimating the impact of the SEM on the external sector of the ESCWA region is that the establishment of the SEM has not had, and is not going to have, a major impact on the external sector of ESCWA members as the overall net effect is only equivalent to 1.2 per cent of the region's total exports. Therefore, the impact of the SEM on the external sector of the region must be set against much more important changes confronting the structure of world trade which are expected to have a significant effect on the region's foreign trade. These changes encompass the concluded Uruguay Round, i.e. trade liberalization, incorporation of services, tighter rules and improved disputes procedures under the new WTO and the evolution of regionalism and demands for new disciplines on labour and environmental practices.

II. THE IMPACT OF THE SINGLE EUROPEAN MARKET AND THE EU GATT-94 COMMITMENTS ON AGRICULTURE IN THE ESCWA REGION

A. Trade in agricultural commodities

39. As all countries in the region are net importers of food and agricultural products, their import bills are expected to increase on account of the rising prices of certain food products on the world market. These upward changes in prices are anticipated as a result of the GATT-94 commitments to reduce export subsidies and abide by stricter rules regarding "dumping". The same pattern of developments of imports from the EU should be expected since it is a major source of supply of agricultural products. The final outcome will depend on the interplay of a number of factors, such as: (a) whether an imported product is on the list of products for which export subsidies will be reduced under GATT-94; (b) whether its market price in the EU will be reduced or not according to the CAP 1992 changes; and (c) whether the elasticity of demand for that product is low or high in the importing country. In the long run, fluctuations in the import bill will be mainly affected by climatic and other natural conditions given the GATT-94 push towards the globalization of the world economy.

40. The argument that additional demand will be created through higher GDP growth in the EU raises the following questions: how much extra demand will be added? How much of this additional demand will be directed to food consumption, which is generally price and income-inelastic? Which products have not reached their saturation level? Which products can satisfy the increasingly sophisticated consumer trends? Furthermore, the original high optimism about the impact of the SEM on growth in the EU has given way to a less optimistic position. It is by no means certain that the SEM will boost EU growth significantly.

41. Another aspect of the demand issue would be the effect of the SEM on the levels of per capita consumption of various food commodities and the pattern of consumption from country to country. Studies show that consumption per head of fresh fruits and vegetables (typical MENA exports to the EU) is more or less static within the EU, with changing patterns in terms of both products and individual markets. Per capita consumption should normally be expected to increase for those products for which the existing demand has remained partially unsatisfied, for example, because domestic production was exhausted and not replaced by imports from other SEM countries owing to the pre-1992 barriers to trade.

42. The removal of the remaining barriers to trade among SEM member countries will not affect exports from ESCWA member countries since the existence of a "single market" for the majority of fruits and vegetables had already preceded the SEM arrangements. For these products, a common organization of the market and quality standards are already *en vigueur*. The main effects of the SEM will be in the case of products that either were not under the common organization of the market or would be affected by the new arrangements regarding technical harmonization under both the SEM and the GATT-94 commitments. The most important product excluded from the fruits and vegetables policy—and which is of interest to ESCWA member countries—is potatoes. The technical harmonization refers to pre- and post-harvest treatments, pesticide residue content, packaging and sanitary/phytosanitary measures. The latter represent a field in which GATT-94 has been particularly active. Some studies on the effects of technical harmonization on imports from third countries indicate that such effects will be positive, since exporters will deal with only one set of technical requirements instead of several. Though this will simplify things, the attainment of such technical and quality standards by ESCWA member countries will be a major task and will necessitate a tremendous effort in view of the fact that the ESCWA member countries are not yet equipped to adjust promptly to new EU rules.

43. The finalization of Spain's entry into the EU will mean serious competition for ESCWA member countries. Until 1992 Spain was subjected to the "reference price" mechanism, which was replaced by the Community "entry price" system, with offer prices drifting below reference prices, especially for courgettes, artichokes and tomatoes. In parallel, a Supplementary Trade Mechanism (STM) will operate until 1996 to monitor imports. The STM will play the role of a "surveillance" system applied to certain imports from third countries in order to establish reference quantities should imports from a third country cause difficulties on the Community market. The fruit and vegetable products which will most probably be adversely affected by the unrestricted circulation of Spanish produce are tomatoes, onions, garlic, cucumbers, beans, globe artichokes, aubergines, sweet peppers, courgettes, dates, citrus fruits, table grapes, melons, apples, pears, cherries, plums and sloe.

44. Competition for ESCWA region agricultural exports to the SEM will also come from the direction of the economic cooperation of the EU with Central and Eastern European countries as well as from other MENA countries. ESCWA members can develop a comparative advantage to be based on the earliness of their production *vis-à-vis* Western Mediterranean produce (e.g. Spain) and Eastern Europe (e.g. for vegetables). The main questions, however, are whether the EU import régime under the new GATT-94 will

be "less" or "more" protective than the existing one and whether the old system of reference prices was "less" or "more" restrictive than the current system of entry prices and maximum tariff equivalents.

B. Quality and technical requirements

45. Perhaps the most important element in the SEM has been the effort to harmonize national standards and technical regulations and thus enhance the free circulation of goods. The task facing ESCWA member countries in meeting these requirements will be facilitated by the GATT-94 Agreement on the Application of Sanitary and Phytosanitary Measures (SPM), which aims both at minimizing the negative effects on trade as a result of the application of such measures and at assisting developing countries to adjust to the new requirements through the granting of technical assistance including the preparation and application of phytosanitary standards as well as maintaining and expanding these countries' market access opportunities. This Agreement, together with the GATT-94 Agreement on Technical Barriers to Trade (TBT), covers all aspects of food standards, including food safety and quality and additional matters such as labelling, consumer protection, biotechnology, food irradiation and "organic" food production.

1. Quality standards

46. Under the common organization of the market in fresh fruits and vegetables the EU has applied standards, derived from the United Nations Economic Commission for Europe Standards, to a good number of fruits and vegetables covering quality, size, packaging and labelling. These standards apply to both domestic and imported products and are uniform throughout the EU. Adherence to these quality standards had preceded the SEM. However, the advent of the SEM will require conformity with new requirements in these fields.

2. Sanitary and phytosanitary measures

47. So far SEM member States have been allowed to apply their own regulations on phytosanitary matters: member States could ban imports not only from third countries but even from other EU members (EU Mediterranean countries virtually prohibited imports of citrus, melons and watermelons). The EU Commission has been active in dismantling national regulations and establishing an overall centrally managed EU régime. In some cases the outcome will be beneficial to third countries, especially in eliminating the practice of some countries to prohibit completely the import of some products. In others, adoption of a stricter rule on a wider basis than so far applied will be an adverse development. Nevertheless, certain basic provisions of the SPM will regularize the situation, even if the EU standards are high. For instance the Agreement, though recognizing the right of countries to take sanitary and phytosanitary measures for the protection of human, animal and plant life, stipulates that these measures must be consistent with recognized scientific evidence, and should not be applied in an arbitrary manner as a form of disguised barriers to trade. Thus, once food regulations are transparent and non-discriminatory, interested countries will be able to evaluate the task with which they are confronted.

3. Other standards (packaging, labelling, handling and storage)

48. Standards for packaging, labelling, handling and storage are dealt with by the TBT, which stipulates that the technical standards and regulations must have a legitimate purpose and be justifiable with regard to the impact or cost of implementation. As in the case of phytosanitary measures, countries must use international standards as a basis for their own standards. Within the SEM project there has been a great deal of activity, especially at the level of the Community's legislation regarding packaging in view of the environmental issues raised. Parallel to the Commission's own drafting of legislation, many countries have

developed their own regulations. The overall position is that SEM member States cannot maintain measures which might distort or restrict competition or trade in packaged products.

49. The adoption of quality standards, sanitary and phytosanitary and other standards by the SEM, apart from offering protection to its own production, would normally benefit trade between EU and the developed countries. At the same time, however, it will set a common yardstick for all third countries, benefiting in this way traditional EU trading partners, including the ESCWA member countries. However, the main benefit will be reaped only if, gradually, there is adherence to quality and other technical standards. This is the crux of the matter. If ESCWA member countries would like to reap the fruits of the remunerative EU market, which is constantly expanding with the addition of new members, the only way would be to surmount the barriers set by these standards. The EU (mainly for the countries with which it maintains Economic Cooperation Agreements) and international organizations, such as the Food and Agriculture Organization of the United Nations, could help in making the necessary arrangements for this major task.

C. Overall impact of the Single European Market on agriculture

50. In order to protect its own farmers, the EU has kept the prices of agricultural products high and will continue to do so, despite the reduction of the expenditure on domestic support (aggregate measure of support [AMS]) in line with its commitments to GATT-94 and the replacement of reference prices and variable import levies by entry prices and tariffs (*ad valorem* and specific).

51. Among the possibly negative changes of the last few years and the foreseeable future for the exports of agricultural products from the ESCWA region, one could include the coming to an end of the transition period for the entry of Spain into the EU. The end of this transition will release from inside the Community market a formidable competitor with all the privileges of the CAP; this will be coupled with the granting of concessions to almost all Central and Eastern European countries. Another negative development is the high "entry prices" and the "maximum tariff equivalent", which could prove to be very prohibitive (though these countervailing charges represent "maximums" scheduled to be reduced under WTO/GATT-94). At the same time some positive aspects can be detected in the latter development: the adoption of the consignment basis by the new system, the more simple customs clearing procedures, *a priori* knowledge of price yardsticks and the countervailing charges to be expected, and the commitment to reduce entry prices (replacing increasing reference prices).

52. The "positive" aspects of the GATT-94 changes are the underlying timid efforts to globalize international trade through the removal of non-tariff barriers, reduction of tariffs and "harmonization" of technical standards. Specifically, in the case of the SEM, non-tariff barriers to trade to be abolished relate to certain products for which national import restrictions were applied, a measure which was extensively used by many countries of the EU to ban or to limit imports of fruits and vegetables from third countries for certain periods. Other measures, also used against such imports several times by EU members, upheld "technical" and phytosanitary specifications. However, under both the "harmonization" elements of the SEM and the transparency requirements of GATT-94, such actions will be minimized. As for the reduction of tariffs, this will be beneficial only for those ESCWA member countries and for those products which were not covered by Economic Cooperation Agreements with the EU. It should be recalled that the EU undertook, under the most recent protocols, to abolish tariffs by 1993 in the case of Egypt, Jordan, Lebanon and the Syrian Arab Republic for products covered by those protocols.

53. Though modest, intraregional trade among the ESCWA member countries has experienced a higher level of exchanges in food and agricultural products than the whole MENA region, a normal phenomenon

in view of the compactness and homogeny of the ESCWA region. The attractiveness of regional cooperation and intraregional trade will become increasingly apparent with the increase in prices of imported agricultural products (in view of WTO/GATT-94 and SEM lower export subsidies). Intraregional cooperation should be encouraged and further facilitated since agriculture has been given new impetus; the food needs in the region are increasing, and harmonization of quality and technical standards is a universal requirement.

III. IMPACT OF THE SINGLE EUROPEAN MARKET ON MANUFACTURING IN THE ESCWA REGION

54. The increase in EU income which it is assumed will result from the SEM is likely to increase the demand for manufactured products from the ESCWA region exported to the EU, while the progressively growing membership in the SEM is expected to divert some of the traditional EU-ESCWA region trade in manufactured products to countries in Southern and Eastern Europe endowed with similar natural resources and with similar factors of production. Although the effect of trade creation may countervail the effects of trade diversion on the ESCWA member countries, when the negative investment effect is taken into account, the ESCWA region may emerge as a net loser. Capital flows are more likely to move away from the ESCWA region in search of a more efficient, secured and stable market provided by the SEM. The impact of the SEM on ESCWA member countries will depend to a large extent on the extent to which internal adjustment pressures within the EU will hamper efforts for external liberalization, and the extent to which discriminatory measures will be applied in favour of one region to the detriment of another. The concluded Uruguay Round agreements will add to the complexity of the issues.

A. Textile and clothing industry

55. The EU is the world's largest exporter, as well as importer, of textile and clothing products, and there has been a considerable amount of vertical integration in the entire production process and distribution chain. In response to rapidly changing consumer tastes, the entire industry has become increasingly flexible, with subcontracting in the industry, or out-sourcing, to other low-wage countries becoming increasingly common in recent years. So far, the EU has adopted a very selective stance in the negotiation of the MFA quotas, with countries having larger imports from the EU receiving more favourable quotas. Furthermore, EU tariffs are imposed on imported fabrics and garments, while such products from Eastern European countries are completely duty free. It is expected that the SEM will divert trade in textiles and clothing from the ESCWA region and from other developing countries to neighbouring Mediterranean (European) and Eastern European countries. In the case of the former, this would be the result of a more efficient functioning of the EU, and, later on, owing to the expansion of the SEM, would include more Mediterranean countries, such as Turkey.

56. However, the concluded Uruguay Round, by completely dismantling the MFA within the next 10 years, starting from 1 January 1995, will exert a major and potentially positive impact on this industry in the ESCWA region and in other developing countries, albeit at a slow pace. The Uruguay Round agreements, however, give countries with low levels of exports of textiles and garments (less than 1.2 per cent of their total exports, with the base year being end of 1991) higher rates of quota growth, averaging 25 per cent starting from the beginning of the implementation of the WTO/GATT-94 agreements, compared with 16 per cent quota growth to other suppliers. Major exporters of textiles and garments in the ESCWA region such as Egypt and the Syrian Arab Republic should be able to utilize the interim period to improve their industrial competitiveness.

57. To stay competitive in the EU textile and clothing market, ESCWA member countries will have to introduce several measures mainly geared to enhancing quality and increasing flexibility of production. Joint ventures with European partners may secure access to the EU and the transfer of new technologies. The Gulf States may have a comparative advantage in the production of synthetic fibre (given well-developed petrochemical industries, in spite of high labour costs and scarce water resources). Export growth of textiles and clothing from the ESCWA region to the SEM is expected to amount to around 4.5 per cent.

B. The petrochemical industry

58. The demand for petrochemicals in the EU is one of the highest in the world, and is expected to grow in line with overall EU growth. The capital- and technology-intensive petrochemical industry is well integrated, vertically, in the EU, and is concentrated in high value-added products.

59. EU policy in the petrochemical industries has emphasized R&D and environmental protection, among other things, with specific research programmes and tax policies geared to promoting and expanding this industry. Therefore, investment in the petrochemical industries is likely to increase in the SEM. In the 1980s, a massive restructuring was initiated in the chemical industry, including the petrochemical industry; most of the trade diversion should have been realized, and it is doubtful that the continuation of integration in Europe in the 1990s will have any further significant impact on this industry.

60. Global overcapacity in the petrochemical industry is affecting ESCWA members and other developing countries more than developed countries, as the latter can move to the more protected and technologically advanced and high value-added products, while the former have to compete in lower priced, resource-intensive products, utilizing conventional technology in the process. Countries in the Gulf region have a comparative advantage in a specific constellation of petrochemicals that are feedstock-intensive, and a comparative disadvantage in capital costs. To the extent that low feedstock costs can mitigate against high capital costs, as the overcapacity in the industry diminishes with the global economic recovery, petrochemical exports from the ESCWA region are likely to grow faster than other developing countries' exports owing to their relatively low feedstock cost advantage. Some ESCWA member countries are likely to channel low-technology petrochemical products, the production of which causes pollution, to the EU, while more sophisticated products will need to be marketed elsewhere. With an assumed EU overall economic growth of close to 5 per cent, a 4.5 per cent growth of EU-ESCWA region trade in petrochemicals could be created, as the demand for petrochemicals usually moves in line with overall economic growth.

61. Although the conclusion of the Uruguay Round agreements is expected to liberalize trade in petrochemicals, the integration of the petrochemical industry of the ESCWA region into world trade requires the refutation of the arguments claiming that low-priced energy and feedstocks are forms of subsidy. Careful in-depth comparative studies are required to back up negotiations with the EU and other interested parties in order to avoid the use of anti-dumping, and other EU safeguard measures provided under international agreements, against the petrochemical industries of the ESCWA region. It should be stressed that gas, which is currently considered low-priced, used to be flared up by major oil companies. The fact that it is currently being utilized, at a given price, cannot be construed as a form of subsidy. It is simply a reflection of a comparative advantage in natural endowment.

C. The food industry

62. The food industry in the EU is a sizeable industry, while the bulk of developing countries' exports are of primary commodities, with little processing or value-added. It is a highly State-regulated industry with

a tariff structure discriminating against processed products from developing countries, making it difficult for ESCWA member countries to export their high value-added products to the EU. Furthermore, the escalating trend in the EU towards concentration of the industry through mergers and acquisitions in production and distribution, coupled with vertical integration and technological leads, has created new "entry barriers" for firms in the ESCWA region and in other developing countries, not to mention the increasing trends towards health food as well as food of higher quality and diversity.

63. As the demand for food is income-inelastic, the trade creation effect of the SEM, and hence EU imports of food products from the ESCWA region, is expected to grow at no higher than 2.4 per cent. Trade diversion could occur as a result of changing health and environmental standards and harmonization of value-added tax.

IV. IMPACT OF THE SINGLE EUROPEAN MARKET ON BANKING AND FINANCE IN THE ESCWA REGION

64. The intense competition among banks in the international financial markets, the uncontrolled off-balance sheet activities and the ramifications of the world debt crisis have led the monetary authorities of major developed countries to conclude that the real value of bank assets may be less than their face value. To control the risk and other issues associated with this situation, the Committee on Banking Regulations and Supervisory Practices (Basle Committee) established, in the late 1980s, supervisory procedures and capital adequacy standards for banks in order to protect depositors. These procedures and standards have been adopted by the EU in implementing the Single European Act of 1987 for the establishment of the SEM and the formulation of its various directives, many of which set guidelines for the operation and establishment of foreign banks in the SEM.

65. Most prominent among these directives has been the Second Banking Directive (SBD), entailing the single banking passport (cross-border banking) and the reciprocity principle. The former indicates that a bank, once established in a SEM member country, can provide financial services throughout the SEM without having to open branches elsewhere, and is subject only to the supervision of the authorities of that SEM member country; the latter implies that before a non-EU bank is granted a licence to operate in the SEM, the EU Commission will have to verify whether all EU banks have equal access to the home country of the bank in question (reciprocity). Banks originating from ESCWA member countries that do not allow EU-wide reciprocity could be denied entry in the SEM. The SEM directives affect the presence as well as operations of ESCWA members' banks in EU countries. Banks with branches in the SEM must convert the branches into subsidiaries, that is, acquire an independent financial and legal status distinct from that of the mother bank, in order to become SEM domestic banks with the same rights and obligations in conducting business as any European bank.

66. The SEM has become a very competitive market-place for ESCWA members' banks, especially with the implementation of the SBD, increasing competition and protectionism in the SEM, and the growing barriers to entry (reciprocity principle). The organic development of these banks through the establishment of subsidiaries has become more difficult, and the acquisition option is hampered by increasing regulatory constraints. Furthermore, ESCWA members' banks are required to adopt greater transparency in published financial results in order to comply with internationally recognized accounting standards. Against this background of SEM rules and regulations, not all ESCWA region banks are expected to survive in the SEM.

67. In their home countries as well as in international markets, ESCWA members' banks will continue to be confronted with a number of challenges, among which are:

(a) Obtaining high-quality resources, especially human resources;

(b) Operating in an increasingly complex environment;

(c) Assessing new business risks (including market and credit risks) in conjunction with changing product mixes and growing competitiveness.

68. A further challenge is seen in the Basle Concordat's classification of countries, adopted by the SEM, into "non-credit-risk" countries (the OECD countries in addition to Switzerland and Saudi Arabia) and "credit-risk" countries (all other countries, including ESCWA member countries). The classification is expected to make costlier and thus less competitive those transactions undertaken through ESCWA region banks and financial institutions.

69. The small size of ESCWA region banks, compared with most European banks, and their insufficient expertise in international finance may not work to their full advantage in the intensely competitive SEM.

70. Furthermore, the Bank for International Settlements (BIS) requirements concerning capital adequacy standards, which have been incorporated in certain SEM directives, are considered costly and thus not helpful for a profitable presence of ESCWA members' banks in the SEM. The new capital adequacy ratio requirement has resulted in significant financial burdens to the shareholders of some foreign banks (including ESCWA region banks) in the EU.

71. In the final analysis, each ESCWA region bank has its own characteristics, risk appetite and objectives which affect it differently and determine its own line of action. It all depends on the type of bank; the diversity, scope and geographical location of its business; and, most important, the vision it has set for itself.

72. In assessing the impact of the SEM, ESCWA region banks and financial institutions are expected to consider whether the opportunities offered by the SEM and, consequently, the implied risk and profit would be sufficient for achieving the objectives being set in terms of growth and return. Two seemingly similar banks may come to opposing answers to the same question. One bank may want to expand more into the SEM to achieve its objectives because it sees itself in a competitively disadvantaged position in the country of its headquarters (for example, the offshore banking units in Bahrain), while the risk/return profile offered by an expansion in the SEM is considered acceptable. The other bank may feel that the risks of expansion in the SEM are either not worth the return, or difficult to assess. This bank may decide to opt for the domestic or regional business, the risk of which could be easily assessed. Others may find that their national focus is sufficient to meet their strategic objectives.

73. Since joining the WTO/GATT-94 General Agreement on Trade in Services is a voluntary process whereby Governments designate the service sectors they wish to include under the Agreement, Governments in the ESCWA region, in deciding as to whether to open up their domestic financial sectors, have to study the costs/benefits that would result from the application of the principle of "reciprocity". Table 6 below shows the relatively dwarfed status of the top 10 ESCWA region originating banks operating in the EU. European banks falling within the assets range of the top 10 ESCWA region banks in the EU have a ranking from 118 to 200 in Europe, not to mention the United States and Japanese giant banks which already enjoy insider status in the EU.

Table 6. Relative importance of ESCWA region banks operating in the European Union

Rank	Bank	Assets ($ billion) (as of 31 Dec. 1993) (Head office)	Major activities
Top 10 ESCWA banks in the EU[1]			
1	Arab Banking Corporation (Bahrain)	18.4	INB
2	National Commercial Bank (Saudi Arabia)	17.8	BSPR
3	Arab Bank (Jordan)	14.4	INB
4	Riyadh Bank (Saudi Arabia)	14.0	INB & TF
5	National Bank of Egypt—International (Egypt)	13.1	INB
6	Banque Misr (Egypt)	11.8	TF
7	National Bank of Kuwait (Kuwait)	11.0	INB
8	Saudi American Bank (Saudi Arabia)	10.5	INB & TF
9	Arab National Bank (Saudi Arabia)	8.7	INB & TF
10	Al Rajhi Banking & Investment Corporation (Saudi Arabia)	7.6	TF
Top 10 European banks[2]			
1	Crédit Lyonnais (France)	338.8	
2	Deutsche Bank (Germany)	322.4	
3	HSBC Holdings (United Kingdom)	305.2	
4	Crédit Agricole (France)	282.9	
5	Société Générale (France)	260.2	
6	ABN-AMRO Bank (Netherlands)	253.0	
7	Banque Nationale de Paris (France)	250.4	
8	Barclays Bank (United Kingdom)	245.9	
9	CS Holding (Crédit Suisse) (Switzerland)	234.2	
10	Compagnie Financière de Paribas (France)	229.9	
Top 10 EU banks of equal size to Arab banks in the EU			
118	Banque & Caisse d'Epargne de l'Etat (Luxembourg)	18.3	
119	Bank fur Arbeit & Wirtschaft (Austria)	18.1	
120	LG Bank (Germany)	17.4	
121	Crédit à l'Industrie (Belgium)	16.4	
122	Raiffeisen Zentralbank Osterreich (Austria)	16.3	
123	Bulgarian Foreign Trade Bank (Bulgaria)	16.2	
124	Mediobanca (Italy)	16.1	
125	Die Erste Osterreichische (Austria)	15.8	
126	Kredietbank Luxembourgeoise (Luxembourg)	15.8	
127	Christiania Bank og Kreditkasse (Norway)	15.4	

Sources: (1) The Banker magazine, November and December 1994; and (2) The Banker magazine, September 1994.

Notes: BSPR: Business promotion, including collection of information and public relations.

INB: International banking, including wholesale banking, corporate finance, foreign exchange, financial advisory services and others.

TF: Trade finance.

V. THE SINGLE EUROPEAN MARKET AND ITS IMPLICATIONS FOR SCIENCE AND TECHNOLOGY IN THE ESCWA MEMBER COUNTRIES

A. Science, technology and the Single European Market: challenges and opportunities

74. The SEM has induced radical developments in European science and technology (S&T), both at the national and collective levels. The constitutional reform of 1987, in particular, served to underline concern about the contribution of European S&T to the competitiveness of the European economies and the welfare of European societies as well as overall socio-economic development in neighbouring regions.

75. S&T programmes in the SEM offer both challenges and opportunities for the development of S&T capabilities in the ESCWA member countries, within the present state of intense technology-based international competition. Meeting the challenges of the rapidly evolving S&T-based European economic system, which are, incidentally, compounded by the new GATT-94 agreements, will necessitate considerable improvements in the competitiveness of the products and services provided by the ESCWA member countries. This, in turn, requires significant S&T inputs into their economies. The EU and at least some ESCWA member countries face common problems which can best be surmounted through effective cooperation in S&T. It is in the development and implementation of such cooperation that the SEM presents important opportunities for the ESCWA member countries.

B. European science and technology

76. The EU conducts a relatively wide range of S&T development programmes designed to implement and further the following:

(a) The Mediterranean policies adopted by the EU;

(b) International cooperative S&T programmes formulated by the EU;

(c) Economic cooperation dedicated to the improvement of employment opportunities in Europe and neighbouring countries including some ESCWA member countries.

77. Nevertheless, efforts in coordinating S&T policies in Europe have not been as successful as efforts directed towards S&T cooperation. Two of the most important programmes instituted with the aim of furthering S&T cooperation in the EU are: the European Research Cooperation Agency (EUREKA) programme, launched through a Franco-German joint effort in 1985; and the Framework Programmes.

78. The EUREKA programme, in particular, emphasizes cross-border cooperation in research and development (R&D) and pre-competitive technology development. The Framework Programmes were designed to cover a variety of topics including microelectronics, information-processing, communications systems and software, advanced business and home peripherals, computer-integrated manufacturing and engineering, basic research, and industrial and materials technologies. The Fourth Framework Programme, which covers the period 1994-1998, is concerned with research and technology development in a number of areas, many of which are vitally important to the ESCWA member countries. The Fourth Framework Programme includes activities focusing on: environment and climate, biotechnology, biomedicine and health, nuclear fission safety, transport, targeted socio-economic research, dissemination and optimization of research

results, training and mobility of researchers, agriculture and fisheries, marine sciences, non-nuclear energy, information technologies, measurement and testing, telematics and cooperation with developing countries and international organizations. Targeted socio-economic research, dissemination of R&D results to enterprises and the exploitation of the results of research are also among areas of activity included within the Fourth Framework Programme.

79. The European Strategic Programme for Research and Development on Information Technology and Telecommunications (ESPRIT), as well as the Air Travel Safety (Aerosafe) and the European Advanced Materials (Brite/Euram) programmes carried out by the EU include R&D activities on issues of immediate relevance to the ESCWA member countries, such as clean and efficient energy technologies, hydrocarbon combustion and new fuels for transport.

80. Other initiatives undertaken by the EU with the aim of enhancing S&T cooperation with other countries outside Europe include:

(a) The International Scientific Cooperation scheme (ISC);
(b) The Science and Technology for Development (STD) programmes;
(c) The Avicenne initiative;
(d) The Med-campus network.

C. The Single European Market and science and technology in the ESCWA member countries

81. The drive towards integrating the R&D function with the needs of society, environmental problems and the acquisition of a competitive edge in the world market is a distinctive feature of EU policies. Cooperation with established networks of European R&D institutions could provide the ESCWA member countries with opportunities for developing their own S&T institutions and building similar national and regional networks. In addition to the opportunities presented by collective European S&T programmes and R&D networks, important openings exist for bilateral cooperation in S&T with national programmes which, despite active integration of community-based and national S&T activities, still account for over 85 per cent of all S&T activities in Europe. So far, participation by ESCWA member countries in cooperative S&T programmes implemented by the EU remains modest.

82. Obstacles to exploiting opportunities for developing effective cooperative programmes between European S&T institutions, on the one hand, and their counterparts in the ESCWA member countries, on the other hand, include:

(a) Lack of well-defined S&T policies and strategies that are geared to tackling socio-economic problems;

(b) Inefficient management of R&D activities and networks as well as weaknesses in mechanisms linking the outcome of R&D activities to development priorities;

(c) Low level of priority attached, and consequently meagre resources allocated, to S&T activities in general;

(d) Weaknesses in the infrastructural arrangements necessary for supporting dynamic S&T activities and linkages.

83. Thus, unless the ESCWA member countries take the necessary measures to improve the state of their S&T capabilities and to link their S&T systems to socio-economic development efforts, the impact of the SEM on the region's economies, as well as on S&T in the region, will be largely negative.

84. On the EU side, obstacles to more intensive cooperation include political as well as economic factors. Lack of information about, and coordination with, S&T institutions in the ESCWA region must also be counted among factors hindering greater cooperation. Nevertheless, considerable opportunities exist for overcoming many of the above shortcomings and weaknesses. Such opportunities may only be exploited with the help of the substantial manpower resource base possessed by the ESCWA member countries, which, incidentally, includes a sizeable proportion of specialists trained in EU institutions. Thus, policies aimed at enhancing the S&T manpower resource base and promoting its role need to be implemented at the collective regional level. Higher levels of investment are also needed to develop and promote the construction of viable S&T infrastructural arrangements directly aimed at the modernization of the productive and services sectors in the ESCWA region. Emphasis will have to be placed, in many instances, on the acquisition of design and engineering capabilities rather than simply building research competence. Detailed analysis of, and participation in, EU projects aimed at promoting the implementation of S&T in production and services sectors, with their emphasis on quality and standardization, can exert an important catalytic effect in developing such capabilities. The expansion of trade between the two sides and subcontracting of industrial production to firms in the ESCWA member countries, should also play a crucial role in building S&T-based production and services capabilities in the ESCWA region. The role of major industrial parastatals and firms in this respect is important.

D. Transfer of technology in agriculture in the ESCWA region

85. It is now being recognized even in EU circles that the very limited trade and financial concessions made since the 1970s to MENA countries, including the ESCWA member countries, were not enough for a real breakthrough in their development process. It is argued that the only way of effectively reducing existing imbalances between the MENA countries and the EU is to address structural causes of lagging development between the two regions. The only way to do this is by a substantial transfer of investment, technology, research and innovation capabilities from the EU to the countries concerned.

86. The SEM and GATT-94 do not envisage direct programmes or measures for the transfer of technology to developing countries. However, the harmonization of quality and technical standards in general and the standards aimed at the protection of human, animal and plant health envisaged in the SEM to facilitate unimpeded circulation and use of commodities produced or imported by one EU member country in the remaining SEM countries would lead third countries to adopt similar standards. These requirements will cause ESCWA member countries to acquire suitable technological capabilities. Appropriate Government institutions should be set up to handle both policy matters and applied research, preferably in cooperation with other countries in the region.

87. The WTO/GATT-94 agreements envisage the elevation of standards internationally to accepted levels, the introduction of transparency in the use of these standards through recourse to scientific methods and the provision of assistance to developing countries for the upgrading of their standards. These developments constitute both challenges and opportunities for ESCWA member countries regarding the crucial issue of transfer of technology.

E. Science and technology and industry in the ESCWA region

88. Owing to differences in various elasticities (demand, supply, price) associated with high-technology versus low-technology manufactured products, the EU is likely to protect strategically its high-technology, high income-generating industries against those in the ESCWA region. It is not expected to protect as vehemently its low- and intermediate-technology industries. It is also likely that the EU will protect its manufacturing production that is less harmful to the environment and will likely liberalize its import of goods whose production, elsewhere, is more harmful to the environment.

89. Petroleum and petrochemical products will continue to dominate the commodity structure of the region's exports to the EU. However, the development of greater capacity to export other products, especially manufactured goods, is also evident. If current trends were to continue, ESCWA member countries will face difficulties exporting to the EU more technological products and manufactured products involving higher end-processing and technological inputs.

VI. RECOMMENDATIONS

90. Policy makers in the ESCWA region should devote serious attention to the SEM and the GATT-94 agreements, given their long-term crucial impact on developmental potentials in agriculture, industry and technology. ESCWA member countries will face a number of serious problems resulting from these new developments. They need to take the necessary action to meet the challenge, particularly with regard to the high quality standards of export to EU member countries. Agricultural and industrial policies and plans need to be reconsidered to meet the changes and challenges that have ensued from global developments.

91. The following recommendations stress the need for specific action in areas such as: foreign trade, agriculture, industry, banking and finance, and science and technology. The urgency of the needed actions stems from the schedule or timetable set under the WTO/GATT-94 principles as they affect impact SEM arrangements.

A. Foreign trade

(1) The **activation and expansion (to include all Arab countries) of the Arab common market will** be inevitable under the European Union new Mediterranean policy, which is aimed at creating a Mediterranean free trade area. The latter will force the abolishment of all types ɔf trade restrictions among the Arab countries themselves as a first step towards integration with other Mediterranean countries. Therefore **decision makers in the ESCWA region and other Arab countries are strongly urged to reinitiate, and very soon, their trade and economic integration efforts. The creation of an Arab trading bloc will also facilitate the region's integration with the world economy and enhance its bargaining power with the EU and other trading blocs.**

(2) **ESCWA member countries should speed up the implementation of their structural adjustment programmes within the context of an Arab common market. They should, in order to benefit from trade with the EU, plan production on the basis of dynamic comparative advantages and the new structure of prices and trading rules.**

(3) The results of the Uruguay Round negotiations and their wide implications for world trade are expected to overshadow any current trade arrangement between the EU and members of the ESCWA region;

thus any future trade arrangements would only be necessary if they provide the ESCWA region with better trade conditions under the WTO/ GATT-94 principles. Accordingly, **efforts should continue towards improving the nature of trade relations with the EU in order to benefit from concessions allowed, under the new international trading principles, for regional groupings and certain trade arrangements**.

(4) The new EU Mediterranean policy aims at negotiating "free trade area" agreements containing elements addressing "mutual benefits" and reciprocity with Mediterranean countries to replace the current cooperation agreements. The new agreements should provide better market access to both agricultural and industrial products of the countries concerned as well as dismantle customs duties on European products. To make maximum use of the new policy, the concerned **ESCWA members are urged to negotiate the new arrangement with the EU collectively rather than individually or at least agree on a united stand in order to strengthen their bargaining power**.

(5) **The major oil-exporting countries in the ESCWA region and other OPEC members should work collectively to exclude crude oil from falling under the WTO/GATT-94 principles**, on the grounds that not only is oil non-renewable and exhaustible, but also that sales of crude oil are more akin, in terms of national income accounting, to disinvestment in the stock of physical assets than to annual generation of value-added.

(6) **Major exporters of petrochemicals should strengthen the negotiations with WTO/GATT-94 in order to impress upon other parties that the low cost of their petrochemicals results from comparative advantages in natural endowment and not subsidies**. After all, associated gas used to be flared up by the "big seven" transnational oil companies.

B. Agriculture

(7) Different products fetch different profit margins at different points of time, as they face different import régimes and different levels of competition. Various fruits and vegetables will be subjected to different "entry prices" at specified periods all the year round. Care must be taken to avoid a recurring phenomenon of the past when different exports from the same country were in competition. Therefore, **close coordination among ESCWA member countries (as one trading bloc) of exports to the EU is necessary in agricultural production and marketing. The most advanced arrangement to aim for should be a combined agriculture production-marketing chain, in cooperation with importers or supermarkets under joint ventures or otherwise**.

(8) In general, **out-of-season production and exports** fetch higher prices and face less restrictive obstacles. ESCWA member countries may acquire a comparative advantage by having their products on the market before the EU production of fruits and vegetables. Thus, **special projects should be experimented with for early fruit and vegetable crops**.

(9) The basic work to be done, however, is the upgrading and adoption of quality and technical standards comparable to those used in the EU and in accordance with the GATT-94 Agreement on Sanitary and Phytosanitary Measures and the Agreement on Technical Barriers to Trade. Quality and technical upgrading is a formidable task, but it has to be done. This is tantamount to breaking the vicious circle of underdevelopment. **ESCWA member countries could start by establishing export produce inspectorates as well as agricultural extension services to assist at the production stage, supplemented with laboratories for testing and analysis**.

(10) Further technical know-how can be easily acquired from the private market. The aim should be to develop an efficient, modern agriculture and food industry in the ESCWA member countries to be linked with the EU. Thus, **firms that are operating at European levels and standards could act as a vehicle for the transfer of technology and capital.**

(11) **Cooperation in agriculture should be enhanced at both regional and subregional levels.** In view of the SEM and GATT-94 and the structural adjustment measures, certain old constraints on such cooperation have become less formidable and can easily be addressed and dismantled, such as: lack of harmonization of agricultural policies (pricing, subsidization, credit, foreign exchange), differences in the objectives of national agricultural plans, and lack of cooperation in research and in the adoption of common standards in combating diseases of plants and animals, as well as in joint marketing.

(12) The growing universal approach to agricultural policies in individual countries, both internally and externally, **should not limit cooperation to arrangements among Governments alone but should involve the business community** and should be geared towards facilitating and encouraging work across borders in a free economic area.

C. Industry

(13) Dependence on Europe as an export outlet and as a source of supply of capital goods has increased the vulnerability of the ESCWA region's economies and their sensitivity to changes and restrictions in the EU. **There are important strategic advantages to diversifying a region's trade pattern, and to differentiating its products for the EU.** An increase in trading partners other than those in the EU can increase the bargaining power as well as the elasticity of a country's offer curve with respect to the EU. Furthermore, an increase in the product differentiation of exports to the EU reduces direct competition with products from Southern and Eastern European countries. **ESCWA region exporters are strongly urged to diversify and differentiate their exports.**

(14) **ESCWA region producers have to increase the quality and flexibility of production of the textile and clothing industry** to meet the changing taste of the EU market, and could form joint ventures with European partners to secure access to that market and acquire new technologies.

(15) **Developed petrochemical industries in the Gulf States may create a comparative advantage in the production of synthetic fibres**, which may improve the competitiveness of the textile and garment industries in the region.

D. Banking and finance

(16) Given the tough banking environment in the SEM, the current financial position of the ESCWA region and the small number of ESCWA region international banks, **banks and financial institutions in the ESCWA region are well advised to focus on their home markets** instead of fettering away resources on becoming active players on the international scene, especially since they have a comparative advantage in the regional and subregional markets and can make full use of their inherent strengths.

(17) Since joining the WTO/GATT-94 General Agreement on Trade in Services is a voluntary process, whereby a contracting party designates the service sectors it wishes to include under the Agreement, **Governments in the ESCWA region should carefully consider the costs/benefits that would affect the domestic financial sectors as a result of the application of the principle of "reciprocity".**

(18) **Those ESCWA region banks with an international orientation but without a subsidiary in the SEM need to address more urgently the issue of their SEM presence and whether it is in their interest to be part of the developments taking place there**. Although the SEM may be perceived as a growth opportunity, it needs to be carefully analysed in the context of each bank's long-term strategic objectives. Those banks that already have one operating presence or more in the SEM will have to evaluate this presence in terms of expected requirements and strategy in the years ahead. A fragmented presence in the context of a unified and integrated European banking market-place could hardly provide the necessary critical mass for the successful delivery of services of a particular bank. **Similarly, those banks with only a modest presence will have to decide on whether such a presence is well-suited to the achievement of their objectives**.

(19) ESCWA region banks are likely to face higher costs of doing business in the SEM, following the implementation of the Bank for International Settlements (BIS) capital adequacy ratios. The SEM, although offering new business opportunities, has already become more competitive. Consequently, **ESCWA region banks operating in the EU are well advised to increase their capital and restructure their balance sheets to comply with the BIS guidelines**.

(20) **The monetary authorities in the ESCWA region should establish new disclosure requirements to ensure that the banks meet international accounting standards**.

(21) ESCWA region banks are perceived as lacking management depth, and many of them are hampered by excessive centralization. Consequently, ESCWA region banks ought to reconsider their organizational structure and the way that decisions are made and overall risks controlled. **ESCWA region banks must continue to upgrade their human and technical skill**, as international banking has become a much more sophisticated business and needs sophisticated skills.

(22) For those ESCWA region banks present in the SEM, the greatest profit opportunities are considered to be in the so-called high-growth countries (Spain, Italy, Portugal and Greece). Considering the costly establishment of a presence, practically, in all market-places of the SEM, **alliances with EU members' banks would, therefore, be less costly for ESCWA region banks than establishing their own network of presence in these countries,** where the volume of new business is expected to be mainly in wholesale banking (mostly corporate finance) with intense competition resulting in significant pressure on profit margins, particularly from Japanese and United States banks. Global asset management for investors (individuals as well as institutions), private and "relationship" banking, EU-Arab trade finance and provision of information on Arab businesses and the Arab socio-economic environment are worthwhile fields to explore for ESCWA region banks in the EU.

(23) ESCWA region banks will need a transition period to get established in the SEM, during which **support from their national monetary authorities will be needed**. Areas of possible support could include channelling more business and investment funds through these banks, especially those that have developed the necessary in-house capabilities to handle this kind of business and that are able to provide competitive services.

(24) For ESCWA region banks that do not have a presence in the SEM, nor plan to establish one, **correspondent banking arrangements with European banks that have extensive retail networks may prove to be the best choice**. However, the key issue remains participating rather than competing, as Japanese banks and financial institutions have done in the wake of their international expansion, namely through participating in deals and establishing business partnerships with their European counterparts.

E. Science and technology

(25) ESCWA member countries should become more aware of the threats and opportunities inherent in European S&T programmes. They should **establish specialized data banks in the region on European S&T programmes**, together with associated capabilities for socio-economic and environmental impact assessment of technology, and they **should develop strategies for taking advantage of European S&T programmes.**

(26) **ESCWA member countries should establish suitable mechanisms for effective cooperation between EU S&T institutions and their counterparts in the ESCWA region**, including the institution of incentives for attracting EU companies to establish R&D laboratories in the ESCWA member countries and encouraging the pursuit of commercially feasible joint ventures in technology-based production and services sectors.

(27) **ESCWA member countries should set up clusters of decentralized and specialized research and technical development (RTD) networks.**

(28) **ESCWA member countries should promote twinning arrangements of their S&T institutions with European institutions.**

(29) **ESCWA member countries should aim at expanding the participation of their scientists and engineers in European R&D programmes**, including training activities designed for advanced specialists.

(30) Mechanisms should be devised by the ESCWA member countries in cooperation with concerned regional and international organizations to achieve the following:

(a) **Promote and develop expertise for integrating S&T into the national economies** of the ESCWA member countries, and utilize endogenous technological capabilities in domestic investment projects;

(b) **Implement joint programmes for the exchange of expertise**, especially with regard to expatriate Arab nationals working in the EU;

(c) **Enhance the experience of policy analysts from the ESCWA member countries in S&T policy formulation**;

(d) **Provide more information to policy makers on national and regional R&D activities in the ESCWA region.**

92. The impact of the SEM on the ESCWA member countries would certainly need to be further assessed in the light of the results of further developments in the international trading system and the implementation of WTO principles, especially as most of the ESCWA member countries are either already members in WTO/GATT or have requested accession to it.