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THE IMPACT OF THE SINGLE EUROPEAN MARKET ON THE ESCWA MEMBER COUNTRIES

SUMMARY AND RECOMMENDATIONS

UNITED NATIONS
New York, 1996

The ESCWA members are Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen.

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Foreword

Geographically and culturally, Europe and Western Asia are intimately related. Over the centuries, history has shown us that major changes in Europe affect Western Asia and vice versa. The latest such change is Europe's move towards economic—and eventually political—unity. This development has far-reaching implications for the world economy in general and for the Western Asia region in particular. The establishment of the Single European Market (SEM), and subsequently the European Union (EU) in 1993, crowned a series of steps of *rapprochement* and integration, leading to the creation of a European economic bloc. The EU now forms one of the world's major economic groupings, along with the North American Free Trade Agreement (NAFTA), the Association of South-East Asian Nations (ASEAN) and the newly emerging Asia-Pacific Economic Cooperation (APEC).

Aware of the significance of these developments to Western Asia, the States members of the Economic and Social Commission for Western Asia (ESCWA) requested the ESCWA secretariat to prepare detailed studies in priority areas on the impact of the establishment of the SEM on the countries of the region (ESCWA resolution 190 XVI of 2 September 1992).

The impact of the SEM on the ESCWA region is general and pervasive, cutting across various sectors and activities. As no single scholar could be expected to cover this issue in its totality, the ESCWA secretariat commissioned a task force comprising a number of scholars from different backgrounds to study the impact of the SEM on the various aspects of the region's economic activities. Foreign trade, agriculture, manufacturing, banking, and science and technology seemed to be the obvious areas of emphasis for such a broad topic. It was thus decided that separate studies would be undertaken on each of those areas. It was agreed that, though each area would require specific expertise, they all required a unified perspective and a common outlook. In order to achieve this goal, a number of meetings and brainstorming sessions among the members of the task force took place to ensure the complementarity of the various studies. The fact remains, none the less, that differences in outlooks and perspectives of the authors of the studies cannot be totally eliminated and, in fact, they should not be. It was inevitable in such a collective work to expect some repetition, some differences in scope, measurements and data, and even a few contradictions. This should not be regarded as a source of confusion, but rather as an added advantage. With various opinions and differences in emphasis, the study is greatly enriched. Notwithstanding these few differences, the study as a whole presents a systematic, consistent and complete coverage of the impact of the SEM on the ESCWA region.

During the execution of this ambitious project, a major global event took place, ushering in a new era in international economic relations. This development, the establishment of the World Trade Organization (WTO), followed the conclusion of the Uruguay Round of multilateral trade negotiations held under the auspices of the General Agreement on Tariffs and Trade (GATT). It is bound to have profound effects on the world economy, including SEM itself. In addition, a Euro-Mediterranean initiative was also launched to pave the way for a future partnership between Europe and the south-east Mediterranean region.

Owing to the fact that the various reports comprising this study had reached different stages of progress when these developments occurred, the effects of GATT, the new WTO and the Euro-Mediterranean initiative received varying degrees of treatment in each report. In some reports, they were dealt with extensively while in others only marginally or even not at all.

In order to reconcile the need to preserve the authenticity of each author's contribution, on the one hand, and to maintain the unity and integrity of the entire work, on the other hand, we found it best to present each report in a separate volume along with an introductory summary and recommendations volume. All of the volumes have the same title: *The Impact of the Single European Market on the ESCWA Member*

Countries, as well as a subtitle specifying the particular sector or area of each volume. Thus the complete study comprises the following five volumes:

Volume I	Foreign Trade
Volume II	Agriculture
Volume III	Trade in Manufactured Products
Volume IV	Banking and Finance
Volume V	Science and Technology

Volumes II, III and V were prepared mainly by consultants and are, accordingly, the responsibility of those consultants. In the other volumes, the consultants' work, although separately identified, was supplemented by the ESCWA secretariat. The summary and recommendations volume, which is an overview of the whole study, was undertaken by the secretariat: in it, the main findings and recommendations of the subsequent volumes are outlined.

If one finding of the study stands out, it is perhaps the contrast between the modest performance of the ESCWA region and the impressive achievements of the European economic *rapprochement*. Although both Arab and European efforts to establish a common market started almost concurrently (in the late 1950s and early 1960s), the results achieved by the two sides were diametrically opposed. No less serious is the decline of the ESCWA region's economic clout in the international economy in general, and the European economies in particular. With the passing of the heyday of the 1970s, ESCWA economies have been left with a rather insignificant role in the European market. It is hoped, however, that with the prospects of peace closer to realization than ever before in the region, efforts and resources will be redirected towards more sustainable development.

Hazem El-Beblawi
Executive Secretary

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H. B.

CONTENTS

INTRODUCTION

1. The establishment of the Single European Market (SEM)[1] in 1993 was a culmination of the European Economic Community's efforts to achieve economic integration as well as an attempt to compete effectively with both Japan and the United States of America. The European Union (EU) 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. The successful outcome of these efforts, which began with the signing of the Treaty of Rome in 1957, has encouraged other countries, both developed and developing, to promote economic and trade cooperation, leading to the establishment of several economic groupings, such as the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Cooperation (APEC). Trade relations are currently undergoing sweeping changes, emanating mainly from the expected changes in the world trading system as a result of the signing of the GATT-94 Agreement and the establishment of the World Trade Organization (WTO), which is expected to change the rules governing world trade relations substantively. In the case of developing countries, the impact of the SEM on trade relations will vary from one group of countries to another depending on the composition of trade. In general, however, the benefit to developing countries is expected to be rather modest.

2. Trade relations between the EU and many member countries of the Economic and Social Commission for Western Asia (ESCWA) are governed by collective agreements, such as the cooperation agreement with the Gulf Cooperation Council (GCC), or separate agreements which are part of the EU Mediterranean policy, such as the bilateral cooperation agreements that exist with Egypt, Jordan, Lebanon, the Syrian Arab Republic and Yemen.

3. The EU is currently formulating a new Mediterranean policy that will replace current cooperation agreements with the countries of the region with "partnership" agreements that will address "mutual benefits" and reciprocity. An expanded agreement is planned with Egypt, to replace the current cooperation agreement. The new agreement will cover—in addition to trade in goods—economic and social cooperation. Jordan, as well, is currently evaluating a new EU partnership proposal.

4. The GATT-94 Agreement is expected to have a greater impact on the external sector of the developing countries, particularly in the area of food imports. The expected rise in food import prices and the further deterioration in the food trade balance of the net food importers will adversely affect food-importing ESCWA member countries. Moreover, as a result of trade liberalization and the phasing out of the MultiFibre Agreement (MFA), the textile trade of the least competitive developing countries (in particular those countries that do not exhaust their quotas) will face increased competition from more competitive developing countries.

5. Ultimately, the main challenge to ESCWA exports to the EU will be to cope with competition from other sources, particularly from new economic powers such as South Asia, South-East Asia and Eastern Europe.

[1] The Single European Market comprises Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom of Great Britain and Northern Ireland.

I. THE IMPACT OF THE SEM ON FOREIGN TRADE
(Volume I of the study)

6. The SEM is not expected to have a major impact on the ESCWA region's trade relations with the EU, as most EU trade is conducted with developed countries, and is mainly intra-EU trade.

7. The ESCWA region's trade with developing countries is on the rise. The share of exports to developing countries in total exports of the ESCWA region increased by 10 percentage points during the period 1980-1992, rising 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). Most of the redirection of the ESCWA region's exports to 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 been replaced, in so far as exports are concerned, by Japan and developing countries (mainly in 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 the ESCWA region's imports since 1983.

8. It is important here to distinguish between the two existing subgroups of countries within the ESCWA region: the major oil-exporting countries, and the other, more diversified group of countries. While crude oil and petroleum products constitute the main exports of the major oil-exporting countries to the EU, the exports of the diversified ESCWA member countries include crude materials, animal and vegetable oils and fats, chemicals, manufactured goods, and machinery and transport equipment (mainly re-exports), in addition to some exports of crude oil and petroleum products.

9. So far, the importance of the EU to the ESCWA region has been more significant as a source of supply than as an outlet for exports. Both major oil-exporting and diversified groups of countries have 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 subgroups of countries.

10. The trade balance of the ESCWA region with the EU deteriorated significantly during the period 1980-1992, reflecting the sharp drop of exports to the EU (mainly crude oil and petroleum products) and the relative stability in imports. After achieving a surplus of $26 billion and $1.1 billion in 1981 and 1982, respectively, the region's trade deficit with the EU reversed into a deficit of between $19.5 billion in 1983 and $12.3 billion in 1992.

11. In assessing the impact of the SEM on trade with third countries, a number of positive and negative effects must be considered. The likely positive effects are: (a) trade creation presuming higher 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 manufactured goods as a result of SEM-generated improvement in productivity. The negative effects, however, will be caused by trade diversion (from sources outside the SEM market to trade partners inside the market owing to lower SEM production) and increased protectionism (owing to more severe EU community-wide non-tariff barriers.

12. The total SEM effect (trade creation, trade diversion and terms of trade) is estimated in the study 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 principal beneficiaries, however, are the Syrian Arab Republic (3.1 per cent) and—potentially—Yemen (3.4 per cent). Different estimates for EU GDP growth generated by the SEM would yield different results for trade creation, trade diversion and terms of trade.

II. THE IMPACT OF THE SEM ON AGRICULTURE
(Volume II of the study)

13. Agriculture in Europe is highly regularized by the common agricultural policy (CAP). For various political reasons, liberalization policies in major European countries have not affected the agricultural sector to the extent that they have affected other sectors. Subsidies, minimum prices and high tariffs remain features of European agricultural policies.

14. GATT-94 will have far-reaching implications on the agricultural policies of the EU. Its impact, however, will be greater on food-importing countries, including the ESCWA region, which is a net importer of food and agricultural products. Consequently, the import bills of these countries are expected to increase, but the final outcome will depend on the interplay of a number of factors: whether an imported product is on the list of products for which export subsidies will be reduced under GATT-94; whether or not that product's market price in the EU will be reduced according to the CAP 1992 changes; and 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 affected mainly by climatic and other natural conditions, given the GATT-94 push towards the globalization of the world economy.

15. The removal of the remaining barriers to trade among SEM member countries will not affect exports from ESCWA member countries, as 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 SEM will mainly affect products that were not included under the common organization of the market or those affected by 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 the potato. Technical harmonization refers to pre- and post-harvest treatment, pesticide residue content, packaging and sanitary/phytosanitary measures. The latter represent an area 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 matters, 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 ESCWA member countries are not yet equipped to adjust promptly to new EU rules.

16. The finalization of Spain's entry into the EU will represent serious competition for the exports of ESCWA member countries to the EU. Until 1992, Spain was subject to the "reference price" mechanism, which was then 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) was to operate until 1996 to monitor imports. The STM was to 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 in the Community market. The fruit and vegetable products most likely to be adversely affected by the unrestricted entry 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.

17. Trade in agricultural products between the EU and ESCWA member countries is covered by the EU Mediterranean policy, which was adopted in Paris in 1973. During the 1980s, several protocols were added to protect these countries' agricultural exports from Portuguese competition and to maintain the flow of traditional exports. Additionally, in December 1990, under the Mediterranean policy, the EU decided to grant additional concessions for agricultural products.

18. One of the most important elements in the SEM has been the effort to harmonize national standards and technical regulations, thereby enhancing the free entry of goods. The tasks 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). The SPM is aimed at: (a) minimizing the negative effects on trade as a result of the application of such measures; and (b) 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.

19. Among the possible negative changes of the next few years, for the export of ESCWA region agricultural products, is the 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. Other negative developments are the high "entry prices" and the "maximums" scheduled to be reduced under WTO/GATT-94.

20. Though modest, intraregional trade among ESCWA member countries has experienced a higher level of exchanges in food and agricultural products than the whole Middle East and North Africa (MENA) region, a normal phenomenon in view of the compactness and homogeneity 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 of the region are increasing, and harmonization of quality and technical standards is a universal requirement.

III. THE IMPACT OF THE SEM ON TRADE IN MANUFACTURED PRODUCTS
(Volume III of the study)

21. This volume focuses on the impact of the SEM on the export potential in three specific manufacturing areas, namely textiles and clothing, petrochemicals and food industries.

22. The EU has adopted a very selective stance in the negotiation of the MFA quotas, in which countries having larger imports from the EU receive 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.

23. The dismantling of the MFA within the next 10 years, a process that began on 1 January 1995 following the conclusion of the Uruguay Round, 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-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.

24. In the petrochemical industry, EU policy has emphasized research and development (R and D) and environmental protection, 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 petrochemicals; most of the trade diversion should already 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.

25. Global overcapacity in the petrochemical industry is affecting ESCWA member countries and other developing countries more than developed countries, as the latter can move to better protected, technologically advanced and high value-added products, while the former have to compete in lower-priced, resource-intensive products, utilizing conventional technology. Gulf Cooperation Council (GCC) countries 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 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 those in other developing countries, owing to their relatively low feedstock cost advantage. Assuming an overall EU 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.

26. Although the conclusion of the Uruguay Round agreements is expected to liberalize trade in petrochemicals, in order to ensure the integration of the ESCWA region's petrochemical industry into world trade, the arguments that low-priced energy and feedstocks are forms of subsidy must be refuted. 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 EU safeguard measures provided under international agreements, against the petrochemical industries in the ESCWA region.

27. Given the low income-elasticity of the food industry, 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. THE IMPACT OF THE SEM ON BANKING AND FINANCE
(Volume IV of the study)

28. Banks in the ESCWA region can be classified into two groups. The first consists of a limited number of international institutions (six banks), while the second comprises small and/or domestic banks, focusing on their home markets. Among the first group of banks, only one (Gulf International Bank) has not converted its branch in the SEM location in London into a subsidiary as required by the rules and regulations governing the presence and operations of foreign banks in the SEM.

29. The most important SEM directive governing bank activities has been the Second Banking Directive (SBD), entailing the single banking passport (cross-border banking) and the reciprocity principle. According to this directive, once a bank is established in one of the SEM countries, it can provide financial services throughout the SEM without having to open branches elsewhere, and it is subject only to the supervision of the authority of that SEM member country. Under the reciprocity principle, before non-EU countries can be granted licences to operate in the SEM, the EU Commission has to verify whether all EU banks have equal access to the home country of the bank in question.

30. The SEM directives significantly and directly affect the presence and the operations of the ESCWA region's banks in the EU. For example, banks from ESCWA member countries that do not allow EU reciprocity could be denied entry into the SEM countries. In addition, banks with branches in the SEM must convert these branches into subsidiaries. That is, they must 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 as any European bank. The stringent requirements of the Bank for International Settlements (BIS) concerning capital adequacy standards, which have been incorporated in certain SEM directives, are considered costly and thus not helpful in establishing a profitable presence for many of the ESCWA region's banks in the SEM.

31. The Basle Concordat's classification of countries, which was adopted by the SEM, poses a further challenge to the ESCWA region's banks. This classification of countries into "non-credit-risk" (the OECD [Organization for Economic Cooperation and Development] countries in addition to Switzerland and Saudi Arabia) and "credit-risk" (all other countries, including ESCWA member countries) is expected to make costlier and thus less competitive those transactions undertaken through ESCWA members' banks and financial institutions.

32. The SEM has become a very competitive market-place for the ESCWA region's banks, which are finding it increasingly difficult to operate profitably. In addition, these banks are finding it more difficult to enter the SEM market, owing to the implementation of the SBD. Consequently, not all of the banks in the ESCWA region are expected to survive in the SEM.

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

34. The rules and regulations of the SEM have added new challenges to the future domestic operations of the banks in the ESCWA region. These banks have to improve their regulatory systems in the domestic market and to adhere to supervision by their respective monetary authorities. In the international arena, they must compete in international financial markets against giant multinational banking organizations.

35. The SEM could also provide opportunities for growth for ESCWA members' international banks. From their consolidated bases, these banks can play an effective role in channelling public and private

investment funds to the EU market. In addition, these banks can put to use their knowledge of their home markets and serve as vehicles for promoting a flow of funds into joint venture projects in their home countries. Moreover, the ESCWA members' banks will continue to be active in import finance despite the stiff competition they face from European banks.

36. The greatest profit opportunities for the ESCWA members' banks operating in the EU are in the high-growth countries (Greece, Italy, Portugal and Spain). These banks can build alliances with EU banks rather than establish their own network of presence in these high-growth countries, where the volume of new business is expected to be mainly in wholesale banking, with intense competition resulting in significant pressure on profits. As for those ESCWA region banks without a presence in the SEM region, correspondent banking arrangements with European banks would be their best means of doing business in the SEM countries.

V. THE IMPACT OF THE SEM ON SCIENCE AND TECHNOLOGY
(Volume V of the study)

37. Technology is a complex multidimensional process that is product specific. It is a process built by time rather than a commodity that can be imported. Technology is also a specialization built from the experiences of different industries and is dominated, in today's world, by the multinational corporation rather than by States.

38. Science and technology (S and T) programmes in the SEM offer both challenges and opportunities for the development of S and T capabilities in ESCWA member countries, within the present state of intense technology-based international competition. Meeting the challenges of the rapidly evolving S and T-based European economic system, which are, incidentally, compounded by the GATT-94 agreements, will necessitate considerable improvements in the competitiveness of the products and services provided by ESCWA member countries. This, in turn, requires significant S and T inputs into the ESCWA region's economies. The EU and at least some ESCWA member countries face common problems which can best be surmounted through effective cooperation in S and T. It is in the development and implementation of such cooperation that the SEM presents important opportunities for ESCWA member countries.

39. Two of the most important programmes instituted with the aim of furthering S and 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. The EUREKA programme, in particular, emphasizes cross-border cooperation in R and 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 ESCWA member countries. These include 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.

40. Cooperation with established networks of European R and D institutions could provide ESCWA member countries with opportunities for developing their own S and T institutions and for building similar national and regional networks. In addition to the opportunities presented by collective European S and T programmes and R and D networks, there are important openings for bilateral cooperation in S and T with national programmes which, despite active integration of community-based and national S and T activities, still account for over 85 per cent of all S and T activities in Europe. So far, participation by ESCWA member countries in cooperative S and T programmes implemented by the EU remains modest.

41. Obstacles to exploiting opportunities for developing effective cooperative programmes between European S and T institutions and their counterparts in the ESCWA member countries include: (a) a lack of well-defined S and T policies and strategies geared to addressing socio-economic problems; (b) inefficient management of R and D activities and networks as well as weaknesses in mechanisms linking R and D activities to development priorities; (c) lack of investment in S and T activities; and (d) inadequate infrastructural arrangements necessary for supporting dynamic S and T activities.

42. Unless ESCWA member countries take the necessary measures to improve the state of their S and T capabilities, including linkage of their S and T system to socio-economic needs and priorities, the impact of the SEM on S and T in the region will be, for the most part, negative.

43. 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 protecting 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 prompt ESCWA member countries to acquire suitable technological capabilities. Therefore, appropriate government institutions should be set up to handle both policy matters and applied research, preferably in cooperation with other countries in the region.

VI. RECOMMENDATIONS

44. The study formulated a number of recommendations that could assist ESCWA member countries in implementing appropriate policies to deal with the impact of the SEM on several important sectors. Some of these recommendations are of a general nature, dealing with the importance of regional economic cooperation and integration, the need for the implementation of appropriate macroeconomic reform policies and programmes, and the need for further economic diversification in the ESCWA region.

(1) ESCWA member countries should promote regional economic cooperation and integration. The creation of a regional trading bloc would facilitate the region's integration into the world economy and enhance its bargaining position with the EU and other trading blocs.

(2) ESCWA member countries should speed up the implementation of their economic reform programmes.

(3) ESCWA member countries should continue their efforts to improve the nature of trade relations with the EU in order to benefit from the concessions allowed, under the new international trading principles, for regional groupings and certain trade arrangements.

(4) ESCWA member countries should negotiate new arrangements with the EU collectively rather than individually; at the very least, they should take a united stand in order to strengthen their bargaining position.

(5) Major oil-exporting countries in the ESCWA region and other OPEC member States should work collectively to prevent crude oil from falling under the WTO/GATT-94 principles.

(6) Major oil-exporting countries in the ESCWA region should explore new market possibilities for oil and oil products, particularly in South Asia, South-East Asia and the Pacific Rim.

(7) Major exporters of petrochemicals in the ESCWA region should strengthen their negotiations with WTO/GATT-94 in order to impress upon other parties the fact that the low cost of their petrochemicals results from comparative advantages in natural endowment rather than from subsidies. These exporters should also take advantage of GATT-94 agreements to reduce and/or remove trade restrictions imposed by the EU on the petrochemical exports of the GCC countries.

(8) ESCWA member countries should closely coordinate their exports with the EU in agricultural production and marketing. They should aim for a combined agricultural production-marketing chain, in cooperation with importers or supermarkets under joint ventures.

(9) ESCWA member countries should establish export produce inspectorates as well as agricultural extension services to assist in production stages; this should be supplemented with laboratories for testing and analysis.

(10) ESCWA member countries should enhance cooperation in agriculture at both the regional and subregional levels. Rather than be limited to arrangements among Governments, such cooperation should also involve the private sector.

(11) ESCWA member countries should promote intraregional cooperation in agricultural trade, in view of the expected sharp increase in prices resulting from GATT-94 and SEM, as a result of lower

export subsidies. Such intraregional cooperation in the agricultural sector will lead to the reduction of food imports in ESCWA member countries.

(12) The ESCWA region's producers should upgrade quality and increase production flexibility of their textile and clothing industries to meet the changing tastes of the EU market.

(13) ESCWA member countries should carefully consider the costs/benefits that would affect their domestic financial sectors as a result of applying the principle of "reciprocity".

(14) Internationally oriented banks in the ESCWA region that do not have subsidiaries in the SEM should urgently address the issue of their SEM presence and whether it is in their interest to take part in developments taking place in the SEM. Similarly, those banks with only a modest presence in the SEM should decide whether such a presence is well suited to the achievement of their objectives.

(15) ESCWA region banks that operate in the EU should increase their capital and restructure their balance sheets to comply with the Bank for International Settlements guidelines.

(16) Monetary authorities in the ESCWA region should establish new disclosure requirements to ensure that banks meet international accounting standards.

(17) National banks in the ESCWA region should be supported by monetary authorities and should eventually conduct negotiations with their European counterparts to ensure equitable treatment in Europe.

(18) The ESCWA region banks should adopt greater transparency in published financial results in order to meet the internationally required standards for financial disclosures.

(19) The ESCWA region banks should continue to upgrade their human and technical skills.

(20) During the transition period that will be given to the ESCWA region banks to establish themselves in the SEM, strong support from national monetary authorities in the ESCWA region should be given to the banks. ESCWA region monetary authorities should negotiate on behalf of these banks. The negotiations should aim, *inter alia*, at lowering barriers for European banks to operate in ESCWA member countries in order to comply with the principle of reciprocity.

(21) ESCWA member countries should develop their financial markets and institutions to a standard capable of competing successfully with foreign markets.

(22) ESCWA member countries should establish specialized data banks in the region on European S and T programmes.

(23) ESCWA member countries should establish mechanisms for effective cooperation between EU S and T institutions and their counterparts in the ESCWA region.

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

(25) ESCWA member countries should promote twinning arrangements of their S and T institutions with European institutions.

(26) ESCWA member countries should expand the participation of their scientists and engineers in European R and D programmes.

(27) ESCWA member countries should promote and develop expertise in order to integrate S and T into their national economies.

(28) ESCWA member countries should establish an appropriate climate for investment, including the appropriate legal and institutional conditions.

(29) ESCWA member countries should develop relevant and progressive educational systems in the region.