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

VOLUME I

FOREIGN TRADE

UNITED NATIONS
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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

Acknowledgements

This is volume I of the study entitled *The Impact of the Single European Market on ESCWA Member Countries,* which was prepared by the Economic and Social Commission for Western Asia (ESCWA). On behalf of the ESCWA secretariat, I wish to express my appreciation to Sheila Page and Michael Davenport (Overseas Development Institute, Regent's College, United Kingdom) for their valuable contribution of chapters I and III to this volume.

H. B.

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Abbreviations

ACP	African, Caribbean and Pacific countries (associated with the European Union)
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
CAP	Common Agricultural Policy
CEECs	Central and Eastern European countries
EEC	European Economic Community
ECU	European currency unit
EU	European Union
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Trade and Tariffs
GATT-94	Uruguay Round of multilateral trade negotiations
GCC	Gulf Cooperation Council
GDP	gross domestic product
GSP	Generalized System of Preferences
IMF	International Monetary Fund
MFA	Multifibre Arrangement
MFN	most favoured nation
NIEs	newly industrialized economies
NAFTA	North American Free Trade Agreement
OPT	outward processing trade
SEA	Single European Act
SEM	Single European Market
SITC	Standard Industrial Trade Classification
TNCs	transnational corporations
UNCTAD	United Nations Conference on Trade and Development
VAT	value-added tax
WTO	World Trade Organization

INTRODUCTION

1. The world is witnessing a number of phenomena that had and continue to have an impact on the ESCWA region, including (a) the Globalization process (of trade firms, industries, services, media and information) and (b) regionalization (exemplified by organizations such as the European Union [EU], the North American Free Trade Agreement [NAFTA], Asia-Pacific Economic Cooperation [APEC], and the Association of South-East Asian Nations [ASEAN]).

2. While globalization and regionalization appear to be contradictory, these schemes are in fact complementary within the context of the ongoing efforts to enhance the competitive power of the three major economic poles: the United States of America, the EU and Japan (the Triad), through the retrenchment of economically powerful countries within blocs, where wider markets are made available for a better distribution of resources. The resulting competitive power should enable enterprises with an insider status to enjoy an advantage over enterprises outside these blocs, as suppliers to the blocs. Members of a given bloc provide each other with a wider margin of liberalization than is available at the international level or to non-bloc countries. This has led foreign corporations to acquire an "insider" status in such blocs, thus affecting the direction of trade and flow of foreign direct investment.

3. The idea of the Single European Market (SEM) was resuscitated in the late 1980s in response to the threat to European markets and industries from the United States, Japan and, perhaps most important, the newly industrialized countries and other emerging developing countries. The main threat seemed to be in manufactures and perhaps most of all in high-technology goods. Agriculture was never considered an important component of the SEM programme, partly because the Common Agricultural Policy (CAP) precluded any serious competition from abroad, partly because of the myth that there was already a single market, but partly also because the main barriers to trade within the EU were the monetary compensation amounts which taxed or subsidized trade in agricultural products between member States.

4. Beyond the underlying credo that EU international competitiveness would be enhanced by the SEM, the effects on third countries were not considered at all in the framing of the programme. Neither the famous Cecchini Report nor its many underlying research reports includes any analysis of the effects on countries outside the EU.[1] Indeed in none of the European Commission documents of the period is there any serious discussion of whether third countries were likely to be net gainers or net losers from SEM. A major restructuring by a region which is a principal trader and investor in the world economy will inevitably have significant effects on other countries, not only in aggregate macroeconomic terms, but also in terms of highly specific effects on geographical areas and industries. This omission from the pre-1992 studies was partly because the importance of the SEM effects on third countries was not appreciated, and also because the whole SEM debate focused on the costs and benefits for the European Communities. Only later did studies begin to focus on individual areas and sectors.

5. Developing countries, perhaps more than others, need to assess the impact of issues such as the establishment of SEM and to react and/or adapt to it appropriately. This issue has acquired an additional dimension with the conclusion of the Uruguay Round of multilateral trade negotiations (GATT-94) under the General Agreement on Tariffs and Trade (GATT).

6. Within the above context arose the need to analyse the impact of the SEM on the ESCWA member countries. Thus, the Economic and Social Commission for Western Asia (ESCWA) has completed a series of studies on the *Impact of the Single European Market on the ESCWA Member Countries*, taking into

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[1] P. Cecchini and A. Jacquemin, *The European Challenge 1992: the Benefits of a Single European Market* (Aldershot [United Kingdom], Wildwood House, 1989).

account, whenever possible, implications resulting from new international arrangements such as the recently concluded Uruguay Round of multinational trade negotiations (GATT-94).

7. Volume II of this series, the present volume, is on the Impact of the Single European Market on foreign trade in the ESCWA member countries. It consists of four chapters. Chapter I reviews the main elements in the programme for setting up the SEM in implementation of the Single European Act (SEA) of 1986, which came into force on 1 July 1987. Although tariff and non-tariff barriers to trade within the European Union were already eliminated by then, the SEM programme addressed the remaining obstacles that had proved to be barriers to a full internal market. Chapter I reviews Europe's administrative harmonization, which covers legal barriers, fiscal harmonization, public procurement, standards, services and the cancellation of border controls. The effects of the SEM are evaluated with regard to movement of factors of production, i.e. capital and labour and the impact of this movement on trade creation and trade diversion. Chapter I concludes with a brief review of the impact of Europe's harmonization efforts on the rest of the world with special reference to ESCWA member countries.

8. Chapter II reviews the developments of the main features of ESCWA/EU trade. It starts by highlighting the importance of the EU in the world economy by comparing its main economic indicators with those of the world as a whole, on the one hand, and those of the main economic counterparts of the EU—the United States and Japan—on the other hand. The relative importance of ESCWA in EU total trade is highlighted through a review of the geographical distribution of EU exports and imports. The importance of trade with the EU for the ESCWA member countries, however, is viewed from different angles; these are: the share of the EU, as the main trading partner of ESCWA, in the latter's total exports and imports compared with the shares of other partners; the commodity structure of trade (exports and imports) with the EU; ESCWA/EU trade on a country level; development in the balance of trade between ESCWA and the EU and, finally, trade between the two parties on a country/commodity level. Chapter II is supplemented by a statistical supplement giving the breakdown at the country level of merchandise exports to and imports from the EU at the three-digit level of SITC Rev. 3, based on data obtained from Eurostat.

9. Chapter III reviews the quantitative effect of the SEM programme on ESCWA member countries, based on the SEM effect on GDP growth within the EU and its transmission to ESCWA member countries through trade creation, trade diversion and, changes in terms of trade.

10. Chapter IV addresses the preferential/restrictive measures in EU/ESCWA trade; this covers the legal framework of EU/ESCWA trade relations, namely the cooperation agreement between the EU and the Gulf Cooperation Council (GCC) member countries and the cooperation agreements between the EU and the ESCWA Mediterranean countries; and major common amendments to the Mediterranean agreements (1978-1994). The new European Union Mediterranean policy; whose main features are reflected in the concluded EU partnership agreement with Tunisia, is reviewed as a model for agreements with other ESCWA Mediterranean countries. Finally the effects of the post-Uruguay liberalization of world trade on EU/ESCWA trade are also addressed. However, the last two issues (the EU partnership and the post-Uruguay era) are not looked at thoroughly or in detail, owing to the fact that they are recent developments and there is as yet not much information available on them. The latter issue will be addressed in depth as part of a larger study on the impact of GATT-94 and the establishment of the World Trade Organization (WTO) on the countries of the region. The study will be undertaken by the ESCWA secretariat in 1996.

I. THE SINGLE EUROPEAN MARKET*

11. The idea of establishing a single market among the European countries was originally envisaged in the Treaty of Paris in 1951 and in the Treaty of Rome in 1957. Following both Treaties, substantial progress towards achieving that goal was made, primarily in the movement of goods. Most tariffs and quantity restrictions on inter-Community trade were eliminated by 1968. However, a number of non-tariff barriers, such as standards and national legislation, hindered free trade in manufactures and other services, particularly financial services. In March 1985, the European Council (the institution of heads of Government and State) asked the European Commission (the EU executive body) to draw up a plan with a specific timetable for the complete removal of all existing barriers impeding the free movement of goods, services, capital and labour among member countries by the end of 1992. In June 1985, the Commission issued a White Paper including 300 essential legislative proposals or draft directives (subsequently reduced to 279) on "Completing the Internal Market".

12. According to the Single European Act of 1986[1] the "Community shall adopt measures with the aim of progressively establishing the internal market over a period expiring on 31 December 1992" so that " the internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this (the European Economic Community) Treaty". The Act adopted officially the single market programme that was launched in June 1985 with the publication by the Commission of its White Paper: Completing the Internal Market, which provided for a seven-year timetable.[2] The creation of SEM was prompted by the desire to exploit fully the gains from a true common market and reap the benefits of increased competition, economies of scale and higher efficiency. More specifically the objective of SEM was to create the conditions for the free movement of goods, persons, services and capital among the member countries by eliminating all those elements that, despite progress made towards integration, segmented the EU Market into national markets. Such elements were: existing national restrictions on intra-EU trade, differences in technical standards and differences in value-added tax (VAT).

13. A few years later, the Uruguay Round of multilateral negotiations was concluded and the GATT Final Act was signed in Marrakesh, Morocco, on 15 April 1994 by 117 countries.[3] The Final Act consists of a number of agreements and decisions such as: the establishment of the World Trade Organization (WTO), the Agreement on Agriculture, the Agreement on the Application of Sanitary and Phytosanitary Measures, the General Agreement on Trade in Services (GATS), and the Agreement on Textiles and Clothing, and the Agreement on Technical Barriers to Trade.

14. The EU commitments under the WTO/GATT-94 Agreements have affected the SEM arrangements in a number of ways, especially in so far as third parties are concerned. The present study attempts to analyse the impact of the SEM on ESCWA member countries within the context of the EU commitments in the concluded Uruguay Round.

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* Sheila Page and Michael Davenport acted as consultants to ESCWA for the preparation of this chapter.

[1] Adopted at the Summit Meeting in The Hague, Netherlands, it came into force on 1 July 1987.

[2] By December 1992, 253 EU measures out of 279 envisaged in the Strategic Programme of the White Paper of 1985 had been approved by the Council of Ministers and 216 were applied.

[3] Not all countries ratified the concluded Uruguay Round in Marrakesh. On 1 July 1995, Egypt, Poland and Switzerland became the latest countries to join the now six-month-old WTO, bringing its total membership up to 100. Another 29 countries are either in the process of finalizing their domestic notification procedures for membership or of completing their schedules in commitments on goods and services.

A. Europe's administrative harmonization

15. The Single European Market (SEM) programme 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 in Europe. Conventional tariff and non-tariff barriers to trade had already been eliminated among the members of the European Community so that the SEM programme was concentrated on eliminating other differences that 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 some areas.

16. The legal foundation of the EU remains central competence for managing international trade, now extended to include movement of labour and capital as factors of production, among the members and with outside suppliers. The objectives of the harmonization exercise are to reduce internal barriers and remove barriers to competition on equal terms within the 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. In the case of specific duties, such as those on tobacco, social objectives have also influenced changes. It is also the case that under current EU and international rules, it is possible to remit most indirect taxes from exports, while exemptions from direct taxes could be challenged under the World Trade Organization rules as equivalent to a subsidy, and therefore either illegal or subject to countervailing action. For this reason, the increasing dependence on indirect rather than direct taxes can improve the external competitiveness of goods and services from the EU.

17. 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 adoption 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.

1. Legal barriers

18. In spite of the general rule that EU external trade policy is EU-wide, individual EU countries maintained national quotas and other special arrangements with non-EU countries, such as the bilateral textile and clothing controls under the Multifibre Arrangement (MFA). Other controls have been imposed on footwear and on electronic goods and toys. Until 1993 these arrangements could be enforced at intra-EU borders because non-EU goods can be deprived of the benefits of the customs union under EU article 115, which allows barriers against goods circumventing a national control.

19. The most conspicuous, if not the most important objective of the SEM is the physical removal of border controls. Article 115, although not repealed, was "inconsistent" with the SEM, and national quotas had to be replaced or eliminated. For most goods, and in particular for the MFA during the 10-year period until it is removed, Community quotas have been imposed. Such quotas effectively increased protection because not all countries had faced quotas from all EU members, and also because the quotas will apply to the new members: Austria, Finland, and Sweden. This is most likely to affect Egypt, for which the EU is a major market and for which yarns, textiles and clothing are important and rapidly growing exports. This trade is also important for Lebanon and the Syrian Arab Republic.

2. *Fiscal harmonization*

20. Excise duties and VAT are not required to be uniform, but permitted bands have been established, eliminating some peaks and troughs. The range of VAT rates has been reduced from a spread of 26 points to 10 points, and this is now considered "acceptable". For developing countries, the VAT measures are unlikely to be significant except in a few specialized areas, such as children's clothing, and indirectly, because the agreement on new arrangements for intra-EU sales facilitates free movement across borders. But removing the German and Danish duties on coffee (41% and 15%, respectively) could lead to a significant increase in coffee imports. Duties on cocoa and its products, and on tea were also high in some countries, so that bringing them closer to the EU average will probably increase imports of cocoa and tea as well. In tobacco, on the other hand, health concerns have meant an agreement to move not to the average, but nearer to the highest duty; this could lead to a doubling of the average duty and cut tobacco imports significantly. These measures could affect Lebanon and the Syrian Arab Republic.

3. *Public procurement and credits*

21. If member countries are forced to free public procurement and credits from tying at the national level, so that tied aid and export credits are moved from the national to the EU level, their value to recipients could increase. There have been no announcements on policy, and it would now be very late to introduce a *de jure* derogation. But implementation may be unenthusiastic, and the practical effect is likely to be limited as tightly as national EU member Governments are able to achieve. It is unlikely to affect the type of assistance to the ESCWA region.

4. *Mutual recognition of standards*

22. Within the Community a distinction is made between harmonization and mutual recognition of standards, between setting a minimum level which all must observe and allowing each country to set its own level, and requiring other countries to accept as imports any product meeting its home country's definition. For imports this creates the question of whether they are to meet the standards of the country where they enter the EU or the country in which they are sold, or the lowest applicable, and for services, whether a foreign service provider can meet the standards of the member with the lowest level. These questions are being resolved on an *ad hoc* basis, and for the moment create additional uncertainties for outside producers. In the long run, they are likely to mean increasing use of harmonization for any product or service of real economic significance, and probably reinforce the tendency to harmonize "upwards".

23. The principal issue here is not, as has sometimes been argued, that developing countries might not be able to meet higher standards. Fears of the effect of common EU standards were expressed at least as strongly by United States or Japanese suppliers, and they are indeed frequently the first cited potentially harmful SEM effect. The problems posed by EU standards include those of access to the standard-setting process; of obtaining timely information about new decisions; of recognition of non-EU testing or safety procedures; and of potentially erratic enforcement at different EU borders and/or failure of customs officials in one country to accept proof of acceptance by those of another. In all cases these problems may arise either for legitimate reasons or to conceal protectionist aims. It is a continuing problem because new standards for new or old products can be agreed upon at any time in the future.

24. Developing countries are likely to suffer from all these problems - and do not have the resources to imitate the United States, for example, in setting up a branch of their own official standards bureau in Brussels. They will also suffer because the act of setting standards increases the barriers to market entry (in the industrial organization, not the trade, sense). An exporter will need, first, to check whether there are rules about how his product is made or sold (this is not self-evident: for some products, but not all, there are

regulations about the size or safety requirements), and second, to know how to find the most recent regulation, and how to ensure that he has timely information about any changes. Exporters from developing countries are inherently more likely to be either new producers or new entrants to the EU market. Some also, for geographical reasons, face the problem that many of their agricultural and maritime products have no close counterparts in the EU countries—unlike temperate products from the United States and Japan—so that there is no domestic EU lobby to restrain regulators from setting unnecessarily complex or high standards to protect themselves from any risk of consumer complaint.

25. The product standards that are most likely to affect developing country producers are for toys, fireworks, plants, fruit and vegetables, for which decisions have largely been made, and for fish and shellfish and meat, for which standards are being drawn up and are more stringent than the present EU average. Several ESCWA member countries are suppliers of fruit and vegetables to the EU (Egypt, Lebanon, Jordan and the Syrian Arab Republic), and of meat and fish (Oman and Saudi Arabia).

5. Services

26. The changes to the legal regimes for services may have major effects, within and outside the EU. There are good reasons for believing that the trade creation and diversion effects of the SEM on services will be extremely large.[4] Services have no direct equivalent of tariffs or non-tariff barriers (and even the new framework emerging from the Uruguay Round does not establish any equivalent form of analysis). Therefore, the previous stages of the integration of the EU countries into a common market did not, in most cases, affect trade in services. Services tend to be governed and protected from international competition through national legislation limiting the type of supplier, both directly by nationality and more indirectly through setting divergent national standards. The SEM harmonization of these has thus moved services through all the stages by which goods had already passed within a period of about six years. It is also here that the information effects were most important: in many services there had been only limited restrictions on foreign suppliers, but a lack of awareness, by potential suppliers, that markets were open. A further reason for expecting a major effect here is that many of the trade barriers that the SEM is intended to reduce are related to services not previously freely traded within the EU (most obviously in transport, banking and insurance). Increasing EU trade in these services and lowering their cost is at the heart of the SEM, and should make them more competitive relative to externally supplied services.

27. To the extent that the SEM results simply in a substitution of services produced in one EU country for those produced in another, because internal trade is liberalized, the direct external effect remains small (except for the efficiency effects resulting from goods integration). But if this substitution leads to a real increase in that service's competitiveness in third markets, other suppliers could lose market share there. Favourable effects on non-EU countries could result: if the lowering of internal EU barriers made it easier for external suppliers to obtain advantages of scale, provided EU barriers to imported services were not insuperable; or from lowering the costs of services imported from the EU; or from changes in EU regulations for particular services as part of the standardization process: or from the dynamic effects on EU demands for income-elastic services.

28. On tourism, there has been harmonization, in most cases in the direction of more stringent standards than the previous average, on contracts and on legal liabilities. On air transport there are higher minimum requirements on noise and safety. If the increase in safety measurements and the drop in noise raise the demand for these services, which seems plausible under a high income elasticity of demand for air transport,

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[4] These effects are reviewed in detail in chapter III.

(even if the higher standards increase cost) external suppliers, including suppliers from the ESCWA member countries, will normally gain.

29. Most ESCWA members are not major net providers of services (migrant labour is not included here). The exception is Egypt. It is, in normal years, a major supplier of tourism services, and after a rapid rise over the last 20 years it is among the developing countries with the highest dependence on services income for external earnings. In 1970, the share of services in total goods and services income was 13%. By 1987,[5] this had risen to over 50%, and by 1992[6] to between 60% and 80%. As both tourism and the other services provided by Egypt are largely not in competition with EU services, any increase in EU income generated by the SEM could have a major beneficial effect on Egypt through a higher demand by the EU for Egypt tourism and other services. Only Kuwait, with an estimated share of external revenue from services (i.e, returns on investments abroad) of 40%-60% in 1992, is close to this level among the other ESCWA member countries that are members of GATT and therefore have comparable data. Jordan (an applicant now to the WTO) might be in a position similar to that of Egypt, and in the improved political conditions Lebanon and the Syrian Arab Republic (still not members of the WTO) could return to their traditional position as service providers. Although calculations based on present earnings would therefore show little effect, the potential benefits are large.

30. Road transport of goods had been regulated by national quotas negotiated bilaterally, often requiring licences/permits for journeys between member States (including the largest). Such licences were normally available for suppliers from a third country, and they imposed clear costs on all companies operating across several countries. These quotas and licenses have ended for EU companies, but not for non-EU companies. Restrictions on transport within an EU country are also liberalized, although still subject to control.

31. These changes were treated by the European Commission as being of negligible importance in a 1988 study,[7] but they clearly impose barriers to a company attempting to gain economies of scale from EU-wide operations, and relaxing them is less likely to benefit a non-EU company, especially if it is dealing with only one member country. Their removal is therefore likely to benefit traders in EU member countries more than importers.

6. Border controls: elimination of controls at internal frontiers

32. By 31 December 1992, which was set as the deadline for the completion of the SEM, many of the barriers on the movement of goods had been gradually removed. Free movement of goods implies that there should be no controls at intra-Community frontiers. Since there are no tariffs on goods moving from one member State to the other, or quantitative restrictions, efforts were concentrated on abolishing other forms of control at internal frontiers. A large number of customs procedures governing movement of goods have been abolished. Only some sensitive goods (such as weapons and drugs) are still subject to spot checks. The only problems remaining concern indirect taxation, the delays in setting up common market organizations for certain agricultural products and alcohol, and the adoption of a regulation regarding dual technologies. With regard to standards and other trade rules, in many cases the Commission was led to adopt the principle of mutual recognition, which on the one hand ensures and facilitates the free movement of goods of all kinds and on the other hand avoids unnecessary recourse to harmonization. This principle also guarantees the preservation of national diversity (national traditions and customs) of individual members. Of course, this

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[5] The last detailed comparative figures provided by GATT, *International Trade 1988-1989*, vol. 1 (Geneva, 1989).

[6] *Increases in Market Access resulting from the Uruguay Round* (Geneva, GATT, 1994).

[7] Commision of the European Communities, Research on the "Cost of Non-Europe," Basic Findings, vol. 1, Basic Studies: Executive Summaries (Brussels, 1988).

does not apply in the case of health and safety or environmental standards, where minimum standards must be observed even under the "Mutual Recognition" principle.

33. All the measures taken were intended to ensure that no goods need be checked at borders (as all were before if only to ensure that neither they nor their carrier came under some controls). But the consequent freedom from checking documentation and from delay will have an extraordinarily significant effect in addition to the individual measures that made it possible, and it is probably one area where the EU estimates of the SEM effects were seriously too low. This is what EU industry or commercial sources list first as the SEM effect: the freedom from delays and bureaucratic "hassle" for any shipment, although the EU reports suggest that these are important "only" for small firms. Studies of firms' behaviour suggest that administrative improvements have a large impact. The improvements benefit non-EU suppliers once they have crossed the EU border, but the benefit is much less than for EU suppliers.

34. For external suppliers, any increase in the efficiency or reduction in the costs of internal movements, whether through the changes on internal services or through the administrative changes at borders could result in trade diversion. In practical terms, the costs of trading have the same effect as those of an import tariff, and if their impact could be known as precisely, their effect in creating and diverting trade could be calculated. The calculations in chapter III, in principle, do this, but can only be based on the evidence of the EU survey that they might amount to 10% of the value of goods. As even 10% is well above current tariff rates, the relatively large values found for trade diversion are not surprising. But the cost estimates cannot allow properly for the real benefits to inexperienced producers considering trade for the first time, for whom the removal of the need to become expert in the whole range of legal regulation of cross-border transfers removes an important barrier to entry. This is much more likely to benefit EU producers than outside suppliers who must still cross the initial border into the EU, and thus incur all the traditional costs of learning and meeting regulations. To the extent that outside suppliers benefit, it will be those large enough to be doing business with more than one EU country, and who therefore see their internal transfer costs reduced. Small external suppliers will not benefit.

B. Effects of the SEM on movement of capital and labour

35. Capital and labour will be affected by the removal of internal barriers, by the harmonization and standardization of barriers and regulations for external flows, and indirectly, by the general increase in income resulting from all the SEM changes.

1. Capital regulation

36. The removal of controls on capital movement has been largely separate from the SEM exercise, and for different motives, especially the general shift away from government intervention in economies. It is therefore applied (in most cases) as much to movements to and from third countries as to transfers among members. What the SEM does is to reduce the practical difficulties and costs within the EU. The only major contribution directly from the SEM, broadly defined, would be a move to a common currency. Like removal of border controls, this reduces the costs of trading for producers within the EU by reducing uncertainty and reducing bank charges. It might also have an efficiency effect in increasing the ease of capital movements. These could increase the relative returns of investment within the Community rather than abroad.

37. Financial services, including banking and insurance services, were opened more completely to intra-EU trade, making any supplier established in one EU country free to offer services in all countries. This gives a direct advantage to EU firms, and is therefore a potential trade diversion away from external suppliers (unless they establish a sufficient presence in an EU country). In the case of services where external supply has always been forbidden, only trade creation will occur, but if this leads to increased efficiency for the

previously very protected financial services industry, there could be effects on exports of these services to third countries. At present, financial services exports do not seem of major importance to the ESCWA member countries, but they are another potential export.

38. Establishing new financial links among the EU countries also increases the possibility of capital movements within the EU through providing lower costs and fewer administrative barriers. This could have an investment diversion effect on external suppliers.

2. Labour

39. The absence of internal border controls requires common external standards (or at least "mutual recognition" of standards) for people as well as goods. The probability, especially given the panic in Southern Europe over African immigration, was always that for developing countries these standards would be near to those of the more restrictive EU countries. The general concern about Eastern Europe and ex-Soviet migration may lead to further efforts to tighten controls, but potentially also to intra-EU conflicts. Germany faces conflict between its obligations to remove controls on EU borders and its offer on Polish migration. Special relations with developing countries and areas which could lead to difficulties include those of Portugal with Macao and Brazil, and of the United Kingdom of Great Britain and Northern Ireland with Hong Kong and South Africa, and each country has different lists for visa controls. In addition to the unpleasant social and political effects, greater effectiveness could limit the efficiency effects of the SEM by raising labour costs. It would also limit the national income of potential labour-exporting developing countries.

40. These regulations are still being agreed, but the initial arrangements and proposals are tending to be at the restrictive end of the range, with no member countries willing to reduce their own restrictions or to broaden the range of countries with which they had special arrangements, while most have been very willing to extend their restrictiveness to meet the demands of others. Combined with the increased freedom of movement of labour within the EU, which creates an interest on the part of the poorest member countries in restricting competition from labour outside, this is likely to mean tight restrictions on immigration to work. Other forms of migration, in particular of political refugees, are also increasingly restricted, although this is more the result of the new scale of the demand for entry than of the SEM. But the need to convince a majority of 15 countries of a special case, on either economic or political grounds, rather than any individual country, is likely to lead to a permanently more rigid regime.

3. Trade creation and diversion in factors of production

41. An increase in growth (or even just in output) should lead to an increase in total investment, and a relative increase in EU growth should also lead to investment diversion, certainly to produce for EU markets, probably to produce within the EU, both to be near those markets (and to gain from all the border effects reviewed above) and because of the fall in relative costs (from those same effects). The developing countries will be affected by both causes, but perhaps more than other non-EU countries by the cost-based diversion because it is they, not the United States or Japan, which have most benefited in the past from investors seeking low-cost suppliers.

42. While investment decisions are made by a small number of companies on the basis of sector- or company-specific opportunities, which makes it difficult to give quantitative estimates of actual or potential diversion, most of the implications of the SEM for investment in developing countries appear to be negative. The dynamic effects as well as the immediate efficiency effects of the SEM are designed to encourage growth and investment in the EU, and EU-based investors will be best placed to take advantage of the various legal and other changes summarized above; only investment abroad to meet the SEM-induced demand growth for

imports in the EU, a rather indirect route, could offset any diversion. Moreover, the diversion will be not only by EU investors but by those based in other industrial countries (increased investment by Japanese and American companies is already evident) and even by some in the developing countries themselves. There is already investment in the EU by firms from Asian newly industrialized economies (NIEs), ASEAN countries, and Brazil (in Spain and Portugal) to take advantage of the SEM. While perhaps questionable from a global efficiency-of-capital point of view, this investment, assuming it is efficient, will raise the national income (although not, directly, the output) of those countries.

43. The characteristic foreign direct investment (FDI) pattern of the 1980s was already a shift by the major overseas investors from developing to developed countries.[8] This shift was most pronounced for Japan (from 56% to 38% for stocks of investment in manufacturing and non-manufacturing industry in developing countries between 1978 and 1988), while the United States' FDI showed little change. Within the EU, the United Kingdom, Germany and the Netherlands all showed changes of 4 to 8 percentage points, leaving the 1988 figure at about 15%; for Germany, at least, there was a clear investment shift to the EU, in particular to the new members, Spain and Portugal. Any increase in the relative attractiveness of the EU would therefore reinforce an existing trend.

44. Total foreign investment in developing countries has, however, recently been directed especially to China, the Asian NIEs, and ASEAN countries, notably Singapore, Malaysia and Thailand; it is in these countries that the share of FDI in total domestic capital formation has been high. EU investment has also gone to a few sub-Saharan and Latin American countries.

45. In contrast, investment in the ESCWA member countries has been low. The United Nations Conference on Trade and Development (UNCTAD)[9] notes that "many of the countries of this region receive insignificant amounts of FDI flows given their absorption potential determined by the size of their domestic market and their relatively high per capita income". The average inflow for the ESCWA region is at about half a per cent of total investment, while the average for all developing countries has risen from just under 3% to almost 8%. (These figures are only for direct investment, not including indirect investment through shares). In the past, this could be explained in some of the countries by their substantial surpluses from oil sales which made them investors themselves, but some of these countries are now the principal recipients. The political and security difficulties of the ESCWA region may have contributed to the situation, but the low base makes it particularly difficult for countries of the region now to meet what will be higher barriers of relative familiarity in the EU. The advantages of countries that already have a large number of investors relative to those that do not will be increased.

46. It is probable that labour costs will rise in the present low-cost EU countries if there is some levelling-up of social costs, and in the EU as a whole, first, as a result of higher incomes, later because of higher productivity due to the increased supply of capital. In contrast to the increased attraction of the EU to external capital, however, social and political pressures in the EU are likely to prevent the economically desirable attraction of external labour, thus limiting the EU gain in output, and preventing other areas from achieving the income gain that would otherwise accrue from "trade creation" in labour.

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[8] Michael Davenport with Sheila Page, *Europe: 1992 and the Developing World* (London, Overseas Development Institute, 1991); and Rolf J. Langhammer, "Competition among Developing Countries for Foreign Investment in the Eighties. Who did OECD investors Prefer?" *Weltwirtschafliches Archiv*, 127, 2, 1991.

[9] *World Investment Report: Transnational Corporations, Employment and the Workplace* (Geneva, UNCTAD, 1994)

C. EFFECTS ON EXTERNAL TRADE POLICY

47. The SEM does not itself embody any changes in external protection or in assistance among the member countries, but to the extent that industries or other groups with lobbying power in the weaker countries suffer from any of the internal adjustments required, it is possible that such changes will occur. An increase in protection would damage external suppliers. Setting rules of origin or national input requirements to restrict the benefits of trade concessions to developing countries (a problem for ACP countries [associated with the EU] and GSP beneficiaries), or to extend the coverage of quotas could increase risks for the trading system as the EU looks for fewer, but more precisely targeted, forms of trade intervention.

48. Such a tendency would be supported by other changes in international trade policy. Under the Uruguay Round settlement, the advantages of both of the general exemptions which the WTO provides for developing countries, and those of special preference regimes are likely to be increasingly restricted to just the least developed countries. The reductions in tariffs reduce the benefits of tariff preferences, while most of the special treatment allowed under the WTO is now given to least developed countries indefinitely, but to middle income countries (which includes all the ESCWA member countries that are WTO members) only for a transitional period, not to exceed 10 years.[10]

49. Egypt has important preferences in some industrial products and some seasonal foods. Tariffs on both of these have come down, and as the cuts are proportional to the original level, and the level for foods was high, the losses of preference here could be important. Other countries have important potential in this area.

50. Although the EU has, in principle, long implemented a joint commercial policy, the combination of the broadening of the definition of the range of trade policy through the SEM exercise, with the prolonged Uruguay Round of multilateral trade negotiations from 1986 to 1994 which coincided closely with the SEM programme, has meant that power in fact has had to be delegated from the national authorities to the EU authority on an increasing number of items and more routinely on day-to-day decisions. In terms of international negotiations, this has increased the role of the EU as a major bloc, rather than 12—now 15—small to medium-sized countries. This creates an additional risk to countries, which need to negotiate with it on both old and new subjects. It also had the effect, under the weak GATT regime for dispute settlements among countries, of further weakening international trading disciplines. This could be partially reversed because the new World Trade Organization has more powers, at least to rule on disputes if not to enforce its decisions. It also provides a permanent forum, rather than intermittent Rounds to settle trading issues, and has restated the GATT/WTO principle of equal voting power, with new specific requirements for different levels of majority (not weighted majorities) for specified types of decisions.

51. There is, however, one important exception to the increased international disciplines under the WTO: on anti-dumping. Here the rules for measuring the appropriate price, and therefore for making a finding that an exporter has or has not charged too little have been altered to permit the inclusion of more costs, in particular of complying with the dumping decision itself, a move in the direction of the EU methods, which have been widely seen as designed to offer protection. At the same time, the EU has, as part of the increased

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[10] Iraq, Lebanon, and the Syrian Arab Republic are the only ESCWA member countries that are neither members of WTO nor current applicants; however, Oman and Yemen are de facto members. As membership of GATT, now WTO, has spread from a minority of developing countries (and almost no countries with centrally planned economies) to virtually all developing countries, with the countries now in transition almost all applying, not having membership will be increasingly anomalous and likely to be used to permit discrimination.

centralization of external policy-making, made it easier to secure Community-wide agreement, which is now necessary under the SEM. The EU has relaxed the requirements from qualified to simple majority agreement.

52. These changes make it likely that the use of anti-dumping actions, as a substitute for the other protectionist actions which are now more restricted, notably targeted quota or other non-tariff measures, will continue to increase. They are as fast and can be as precisely targeted on supplying countries as bilateral quotas. Anti-dumping action will be more difficult to resort to at the EU level (not member country level) in order to protect individual EU countries, without restricting sales to those that do not have home industries to protect. Such actions have been mainly against the major exporters of manufactures in East and South-East Asia and in Latin America. Only Egypt, among the ESCWA member countries (with three cases between 1985 and 1992, out of a total against developing countries of 473 has been a major victim,[11] and this is well below the levels for countries and areas such as the Republic of Korea (78), China (69), or Taiwan Province of China (68). It could, however, become more of a problem as the countries of this region move more into manufactures.

53. The example of the SEM in showing that reduced conventional trade barriers are not sufficient to create full competitive conditions among countries, or a full common market, has probably influenced other regional groups as well as international arrangements like the Uruguay Round in including new subjects in what are nominally trade issues. The SEM and other EU negotiations provided practical examples of how international regimes for the new areas could work, and as well as of what traders would increasingly demand from international regulation.

D. Effect of Europe's harmonization efforts on the rest of the world

54. The SEM 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 more collective and formal relations with other countries and multilateral organizations.

55. The SEM regime necessarily transfers to the EU Commission some powers and competence in dealings with third countries on the new subjects, and this is reinforced by the inclusion of many of the same topics in the new areas of international regulation under the concluded Uruguay Round and the World Trade Organization. These include services, trade-related investment measures, and regulation of the protection of intellectual property rights. There also is an information effect.

56. One of the most important results of the SEM initiative has been the increased awareness within but also outside the EU of the opportunities for mobility of both products and factors of production. Many of these opportunities have in fact existed for years, but if improving internal markets is the essence of the SEM, it seems reasonable to include the improvement in information about them as part of the SEM effect.

57. Substantial progress has been made since 1 January 1993, when the Single European Market became a fact. Border controls have almost been dropped; technical standards in most areas of economic activities have been harmonized; restrictions on competing for tenders for public procurement have been abolished; free movement of labour has become a reality; and the restrictions on short-term as well as long-term capital transactions among EU residents have been abolished.

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[11] Davenport and Page, op. cit.

58. Although the SEM project was mainly an internal exercise in deepening European integration, it could have great effects on outside trading partners with regard to such matters as conditions of competition, self-sufficiency, demand and standards required. Thus the impact on ESCWA members and other developing countries will be mainly indirect.

59. The third world cannot afford to be a passive bystander in the face of these massive changes. The new developments pose formidable challenges and opportunities. There is not a single group of developing countries that will be more affected by these changes than the ESCWA member countries, given their geographical proximity to the EU region, their long historical record of extensive and large economic interactions (trade, finance, and migration) and the similarity of their structure and composition of trade to that of potential new entrants to the EU. New strategies and new modes of interaction are required to enhance the potential positive rewards of trade creation and to ward off and moderate the negative effects of trade and investment diversion.

II. DEVELOPMENTS OF THE MAIN FEATURES OF MERCHANDISE TRADE BETWEEN THE ESCWA MEMBER COUNTRIES AND THE EUROPEAN UNION

A. STRUCTURE OF THE EU FOREIGN TRADE

1. Some basic indicators

60. The European Union is the world's largest trading bloc, with EU member countries accounting, in 1991, for almost 32% of the world's GDP, 6.7% of its population and 40% of its merchandise trade: that is 5 times the 8% contribution of the United States and about 10 times the 4.1% contribution of Japan (table 1). The EU openness to and interdependence with the world economy compared with its main counterparts, the United States and Japan, is evident through other indicators as well. In 1991 the ratio of merchandise trade to GDP, for instance, equalled around 40% in the EU compared with 10% in the United States and only 8.6% in Japan; it is also higher by around 25% than the world percentage as a whole of 31.7%. Per capita merchandise trade is another indicator. It equalled $7,812 in the EU, against $2,331 in Japan and $2,229 in the United States and only $1,318 in the world .

TABLE 1. THE EUROPEAN UNION: SOME BASIC INDICATORS (1991)

	World	EU	United States	Japan	Percentage shares in the world total		
					EU	United States	Japan
1. GDP ($ billion)[a]	22 391	7 133	5 611	3 346	31.9	25.1	14.9
2. Population (million)[a]	5 383	362	253	124	6.7	4.7	2.3
3. Merchandise trade ($ billion)[b]	7 093	2 830	564	289	40.0	8.0	4.1
4. Merchandise trade/GDP (percentage), 3:1	31.7	39.6	10.1	8.6			
5. Per capita merchandise trade (US $), (3/2)	1 318	7 812	2 229	2 331			

Source: a/ *UNCTAD, Handbook of International Trade and Financial Statistics*, 1993.
b/ IMF, *Direction of Trade Statistics Yearbook, 1994.*

2. Geographical distribution of European Union foreign trade

61. 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% in 1980 to 81% in 1992 accompanied, during the same period, by an increase in the share of intra-EU exports from 58% to 62%. EU imports from developed countries, which represented 71% of total imports in 1980, also increased to 81% in 1992 and are accounted for mainly by the rise in the share of intra-EU imports from 52% to 59% (table 2).

62. Differences in the relative economic growth rates and changes in the currency exchange rates during this period are considered the main explanatory variables of increasing trade with industrial countries, while the internal market reforms pursuant to the Single European Act (SEA), which came into force on 1 July 1987, and the entry of new members to the Market are considered the main factors behind the expansion of intra-EU trade.

TABLE 2. THE EUROPEAN UNION: GEOGRAPHICAL DISTRIBUTION OF TRADE, BY REGIONS, 1980-1992

(Percentage shares)

	Total	Developed countries			Developing countries									Rest of World
						ESCWA region			Other developing regions					
	Billion$	**Total**	Intra-EU	Others	**Total**	Total	GCC	Other	Total	Asia[a]	Latin Am.	Africa[b]	North Africa[c]	
EXPORTS														
1980	665.9	**73.0**	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	**72.2**	56.2	16.0	**17.7**	6.5	3.5	3.0	11.2	3.6	2.6	2.6	2.4	10.1
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	**76.2**	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	**77.9**	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	**80.2**	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	6.7
1990	1367.3	**81.7**	60.6	21.1	**11.1**	2.0	1.2	0.8	9.1	4.5	1.9	1.4	1.3	7.2
1991	1371.3	**81.6**	61.8	19.8	**11.5**	2.2	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	**11.9**	2.2	1.6	0.6	9.7	4.9	2.2	1.4	1.2	7.4
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**	9.5	8.1	1.4	11.1	3.3	3.3	1.8	2.7	8.6
1982	615.3	**72.1**	53.4	18.7	**17.8**	6.4	5.3	1.1	11.4	3.3	3.3	1.6	3.2	10.1
1983	628.2	**73.7**	51.4	22.3	**17.2**	4.7	3.5	1.2	12.5	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	12.9	4.0	3.8	2.2	2.9	9.3
1985	664.0	**75.2**	57.2	18.0	**16.3**	3.3	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**	2.4	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	**12.6**	2.0	1.2	0.8	10.6	4.9	2.5	1.5	1.7	6.5
1988	1082.8	**81.2**	57.7	23.5	**12.8**	1.5	1.0	0.6	11.1	5.4	2.6	1.6	1.5	6.1
1989	1167.2	**80.8**	57.2	23.6	**12.9**	1.8	1.1	0.7	11.1	5.4	2.6	1.5	1.6	6.3
1990	1413.4	**80.8**	57.9	22.9	**12.6**	1.6	1.0	0.6	11.0	5.4	2.5	1.3	1.8	6.6
1991	1458.4	**80.6**	57.6	23.0	**13.1**	1.5	1.1	0.4	11.6	6.2	2.4	1.2	1.8	6.3
1992	1516.7	**81.4**	58.7	22.7	**12.8**	1.4	1.0	0.4	11.4	6.5	2.2	1.1	1.6	5.8

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

Notes: a/ Excluding ESCWA.
b/ Excluding North Africa.
c/ Excluding Egypt.

63. 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 developing countries in the EU exports dropped from 16% to 12% while their share in the EU imports dropped from 20% to 13%. Latin America, Africa and North Africa all reported declines in their contributions in the EU total exports and imports. However, EU trade with Asia (excluding the ESCWA region) has witnessed an improvement, reflected by an increase in its share in the EU exports by around two percentage points (from 3.1% in 1980 to 4.9% in 1992) and a doubling of its share in EU imports (from 3.4% in 1980 to 6.5% in 1992).

64. The EU trade with the ESCWA region, although modest to start with, has witnessed further reductions. During the period 1980-1992, the ESCWA region's share in EU total exports was cut by half, from 4.7% in 1980 to 2.2% in 1992, while the ESCWA region's share in total EU imports in 1992 was only one sixth of its 1980 level, from 8.8% to only 1.4%, mainly as a result of the drop in world oil prices and a drastic cut, as of 1982, in quantities of oil imported from the region.

65. The overall geographical distribution of the EU trade indicates that the main trading interests of the EU are within its own boundaries and with developed industrial countries, while the importance of trade with developing countries and the rest of world is on the decline.

66. From this review one can conclude that any increase in the EU trade generated by the establishment of the SEM will be more to the advantage of its own member States and other developed countries since the share of all developing countries over a 12-year period was just over 10% and in later years almost half of it was taken by newly industrialized countries in South and South-East Asia. The sharp decline in the share of ESCWA member countries, following the slump in the oil market, indicates that unless there are major improvement in the region's production base and structure, its share in the EU total trade will not automatically increase with a more liberalized EU market.

B. Importance of trade with the EU for ESCWA member countries

1. Some basic indicators

67. ESCWA member countries account only for small shares in world basic indicators, such as: total GDP, population and merchandise trade. In 1989 the ESCWA members' GDP totalled $275.5 billion, only 1.4% of the world GDP of $19,497 billion (table 3). The ESCWA members' total population of 121 million made up 2.4% of the world population, while its merchandise trade, $196.6 billion, made up 3.3% of the world's merchandise trade. The latter percentage, which is more than double the region's share in the world GDP, indicates the extent of the ESCWA member countries' openness or reliance on the world economy as an outlet for their excess production of certain commodities (mainly crude oil and petroleum products) as well as a supplier of their needs an even a wider range of commodities. Another indicator of the ESCWA region's openness is its high trade/GDP ratio of 71.3%, though it is higher for the GCC countries (86.1%) than for other ESCWA member countries (52.8%). However, both ratios were much higher than that of the world ratio (30.3%) (see table 3), or that reported by the EU in 1991 (39.6%) (see table 1). Per capita merchandise trade is another important indicator; it equalled $1,627.5, divided almost equally between exports and imports. Although it was higher than the world's per capita merchandise trade of $1,198.6, it was much lower than the ratio reported by the EU in 1991 of $7,812.

2. Overall picture

68. Trade of ESCWA member countries is mainly with developed countries. In 1980, the ESCWA member countries exported 60% of their total exports to the "Triad" (EU, the United States and Japan) and imported 62.5% of their total imports from them. Since then, the share of the Triad in ESCWA member

countries' total imports fluctuated within the range of 57% and 64%, ending in 1992 at 63.6% while the exports of ESCWA members to the Triad showed a clear declining trend from 60.3% to 53.6% (table 4).

TABLE 3. ESCWA REGION: SOME BASIC INDICATORS (1989)

		ESCWA			Percentage share to the world total		
	World	GCC countries (1)	Other ESCWA member countries	Total (1)+(2) (3)	GCC countries (4)	Other ESCWA countries (5)	Total (4)+(5) (6)
1. GDP ($ billion)	19 497.0	153.4	122.1	275.5	0.8	0.6	1.4
2. Population (million)	4930.6	19.5	101.3	120.8	0.4	2.0	2.4
3. Merchandise trade ($ billion)	5909.6	132.1	64.5	196.6	2.2	1.1	3.3
3.i. Exports ($ billion)	2908.6	71.0	27.4	98.4	2.4	0.9	3.3
3.ii. Imports ($ billion)	3001.0	61.1	37.1	98.2	2.0	1.2	3.2
6. Imports/GDP (percentage), 3.ii:1	15.4	39.8	30.4	35.6			
7. Exports/GDP (percentage), 3.i:1	14.9	46.3	22.4	35.7			
8. Merchandise trade/GDP (percentage), 3:1	30.3	86.1	52.8	71.3			
9. Per capita imports ($) (3.ii/2)	608.6	3133.3	366.2	812.9			
10. Per capita exports ($) (3.i/2)	589.9	3641.0	270.5	814.6			
11. Per capita merchandise trade ($) (3/2)	1198.5	6774.3	636.7	1627.5			

Source: National and international sources.

69. Among the Triad, the EU share in the ESCWA region's total exports was in the lead during the first three years, 1980-1982, though it was on the decline. The EU share recorded a level of 31% in 1980, the highest during the whole period 1980-1992, owing to the heavy reliance on imports of oil from the GCC countries and Iraq while oil prices were at their peak, compared with 19.4% for Japan and 9.9% for the United States. The EU share started a declining trend afterwards until it reached its lowest level, 16.4%, in 1984. While Japan, which was consolidating its share, reported a record level of 29.5% in 1985, the share of the United States hit a new low in that year when it dropped to only 4.3%. The EU slightly recovered the level of its contribution in the following years to reach 21.5% in 1987 but dropped again in the following five years, fluctuating between 16.8% and 19%.

70. The fall in the share of exports to the EU was mainly a reflection of the fall in both world oil prices and quantity of crude oil imported by the EU. Thus, although the EU was a main trading partner of the

ESCWA member countries in the early 1980s, it has since then been displaced, in so far as exports are concerned, by Japan and developing countries (mainly Asia). The share of Japan, however, also dropped following its record level in 1984 to fluctuate between 23.3% and 18.1% but continued to have the lead.

TABLE 4. ESCWA REGION: GEOGRAPHICAL DISTRIBUTION OF TRADE, BY REGIONS, 1980-1992

(Percentage shares)

Year	Total $ Billion	Developing regions: Total	Asia[a/]	Latin America	Africa[b/]	North Africa[c/]	EU	USA	Japan	The Triad[d/]	Eastern Europe & ex- USSR	China	Rest of the world	Total (Less developing regions)
Exports														
1980	**192.3**	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	**182.8**	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	**133.2**	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	**106.2**	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	**100.3**	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	**78.5**	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	**59.5**	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	**69.0**	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	**69.4**	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	**86.1**	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	**106.0**	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	**95.8**	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	**100.4**	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	**84.6**	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	**104.5**	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	**111.0**	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	**96.5**	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	**88.0**	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	**69.5**	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	**63.0**	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	**60.7**	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	**70.2**	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	**70.0**	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	**73.4**	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	**74.8**	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	**90.3**	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*; various issues.

Notes: [a/] Including ESCWA region.
[b/] Excluding North Africa.
[c/] Excluding Egypt.
[d/] EU + USA + Japan.

71. On the import side the EU, despite minor fluctuations, continued to supply more than one third of the ESCWA region's total demand for imports. The share, which ranged between 33% and 35% throughout the period 1980-1992, was higher than the shares of both Japan and the United States put together.

72. Contrary to the evolution of the EU geographical distribution of trade, the ESCWA region is increasingly trading with developing countries. The share of exports to the latter in the ESCWA region total exports increased by around 10 percentage points during the period 1980-1992, moving from 23.9% in 1980 to 33.4% in 1992. This increase is accounted for mainly by exports to Asia, whose share in total exports of the ESCWA region (including ESCWA intraregional exports) increased by 12 percentage points (from 17.2% in 1980 to 29.5% in 1992).

73. Most of the redirection of the ESCWA region's exports towards developing countries was to the detriment of the region's exports to the EU. The fall in the share of ESCWA region exports to the EU from 31% in 1980 to a mere 19% 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. Exports

74. On a group level, the decline in the share of the EU in the ESCWA region's total exports was only evident in the exports of the GCC countries, as the EU share dropped by almost 50% between 1980 and 1992, from 31% to 16%. The share of the EU in the exports of other ESCWA member countries was higher to start with and increased from 39% in 1980 to 45.0% in 1992 with moderate fluctuations (table 5). Differences in the importance of the EU as an outlet to the region's exports among ESCWA member countries can be mainly explained by the historical trading ties and recent trade arrangements with the EU collectively or with one or more of its members individually. On a country level, the EU seems to be an important market for Kuwait and Saudi Arabia; the share of the former increased from 24.8% in 1980 to 30.3% in 1992 while the share of the latter dropped significantly, from 32.7% in 1980 to 16.9% in 1985 before it recovered in the following few years to 22.5% in 1992. The EU has always been an insignificant market for Bahrain, with an average share of only 3.4%. However, the drop in the GCC members' share of exports to the EU between 1980 and 1992 was strongly evident in the slash in the shares of Qatar, from 36.3% to only 2.6%, of Oman, from 21.4% to 2.3%, and of the United Arab Emirates, from 27.5% to 7.4%. For other ESCWA member countries, the EU is a very important outlet. This group includes the exports of the former Democratic Yemen,[1] with an average share of 50.8%; the Syrian Arab Republic, 44.5%; Egypt, 37.6%; followed by the former Yemen Arab Republic,[1] 33.3% and Iraq, 30.7%; but very insignificant for Jordan, only 4.4%, followed by Lebanon, 15.5%. However, the increase in the latter group's share of exports to the EU, from 38.6% in 1980 to 45.3% in 1992, was evident in all ESCWA member countries, except for the Syrian Arab Republic which reported a decline in its share from 61.7% in 1980 to about 46% in 1992.

75. For the GCC countries, the main commodity 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 only significant in some years.

76. The exports of "other ESCWA member countries" are more diversified and include, in addition to crude oil and petroleum products, 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).

77. The main sources of competition against oil and gas exports from the ESCWA region to the EU are: the former Soviet Union, the Islamic Republic of Iran, North Africa and Europe itself; in addition, 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, Turkey and the Central and Eastern European countries (CEECs) are the ESCWA region's main competitors in manufactured goods. The CEECs negotiated free trade agreements with the EU in 1991, and trade statistics show there has been a large supply response following the liberalization of their economies.

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1 On 22 May 1990, Democratic Yemen and the Yemen Arab Republic merged to form a single State, the Republic of Yemen.

TABLE 5. ESCWA REGION: SHARE OF EXPORTS TO, AND IMPORTS FROM, THE EUROPEAN UNION IN TOTAL EXPORTS AND IMPORTS OF THE REGION, SELECTED YEARS

(Percentages)

Exports(f.o.b.)	1980	1983	1985	1987	1989	1990	1991	1992
ESCWA total	**31.0**	**19.6**	**18.0**	**21.5**	**18.6**	**16.8**	**18.3**	**18.7**
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	...	...
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
Syria	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	...	...
Imports(c.i.f.)								
ESCWA total	**34.3**	**34.8**	**33.3**	**35.5**	**33.4**	**31.6**	**34.0**	**35.2**
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
Syria	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	...	...

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

Notes: ...not available;

f.o.b. = free on board;

c.i.f. = the value includes cost, insurance and freight.

78. Table 6 points out the differences in the value of non-oil exports and market share in the EU between ESCWA member countries on the one hand, and some other Mediterranean countries (namely North Africa and Israel, and the CEECs) on the other hand, between 1989 and 1994. All groups achieved growth in their values of exports, equal to 8.8% in North Africa, 8% in ESCWA member countries and 6.1% in Israel. The value of exports from CEECs, however, more than doubled when increased by one and a half with an annual rate of growth of 20.4%. However, owing to the expansion in the EU total imports, the percentage share of ESCWA member countries in the EU market remained around 0.67% and that of Israel around 0.80%. The share of North Africa, however, increased slightly from 1.19% to 1.24% but the share of the CEECs increased significantly, from 2.79% to 4.83%.

79. Although North Africa and Israel are well recognized competitors against ESCWA member countries in the EU market, the real threat seems to be the CEECs. Despite the economic and financial difficulties associated with their transition process to a market economy, the CEECs succeeded in increasing their non-oil exports to the EU in a five-year period by ECU 15.8 billion, while ESCWA member countries increased their non-oil exports by less than ECU 1 billion.

80. A main reason for this large increase in the CEEC exports to the EU is the rapid expansion of intra-industry trade. The EU agreements with the CEECs have created incentives for EU suppliers/retailers to engage is so-called outward processing trade (OPT). OPT consists of shipping components or assemblies to the CEECs when further processing is necessary and has been intensively used for sectors such as garments, electrical machinery and furniture. The processed goods are then exported back to the EU suppliers.

81. In the period following the implementation of the agreements with the CEECs, exports after outward processing accounted for about 18% of total CEECs exports to the EU in 1993, up from 10% in 1989.[2]

4. Commodity structure of exports of the ESCWA region to the European Union

82. The ESCWA region's commodity structure of exports to the EU is dominated by crude oil and petroleum products. Beverages and tobacco [SITC, section 1] and animal and vegetable oils [SITC, section 4] had a contribution of nil all over the time series 1980-1992, while the shares of the other sections were very modest. This was particularly true in 1980, when mineral fuels [SITC, section 3] made up 94.3% of the region's total exports to the EU. Commodities not classified [SITC, section 9] and manufactured goods [SITC, section 6] came next, with contributions of 1.4% and 2.1% respectively. The contributions of the remaining sections ranged between 0.2% and 0.8% (table 7).

83. The share of oil in the ESCWA region's commodity structure of exports to the EU increased to 97.3% in 1981, but started to decline in the following years until it reached its lowest level, 77.7%, in 1988 before recovering to an average of about 83% in 1989-1991. In 1992 it dropped again to 78%, owing to the exclusion of both Iraq and Kuwait from the oil market because of the Gulf war, but was maintained in 1993 despite the partial coming back of Kuwait. The declines made room for the shares of other sections to increase.

84. The change was particularly evident in machinery and transport equipment [SITC, section 7] (mainly re-exports), which increased from only 0.8% in 1980 to 2.9% in 1983 and to 6.7% in 1988. It dropped in the following three years before increasing to 8.1% in 1992 and 8.6% in 1993. Chemicals and related

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[2] B. Hoekman and S. Djankov, "Catching up with Eastern Europe? the European Union's Mediterranean Free Trade Initiative", Economic Research Forum, Conference on Liberalization of Trade and Foreign Investment, Istanbul, Turkey, 16-18 September 1995.

products [SITC, section 5], which started in 1983 with a contribution of only 0.2%, increased in the following years to 3.6% in 1988, but dropped to 2.4% in 1992, and further to 2% in 1993.

TABLE 6. NON-OIL EXPORTS TO THE EU AND CHANGES IN THE MARKET SHARE OF SOME MEDITERRANEAN COUNTRIES AND THE CEECS, 1989 AND 1994

(Million ECU)

	Value			Market share in the EU	
Country	1989	1994	Growth rate (annual)	1989	1994
ESCWA	2501	3678	8.0	0.67	0.66
Egypt	790	1107	6.9	0.21	0.20
Jordan	86	152	12.1	0.02	0.03
Kuwait	131	169	5.2	0.04	0.03
Lebanon	100	87	-2.8	0.03	0.02
Syrian Arab Republic	90	234	21.0	0.02	0.04
Saudi Arabia	890	1234	6.7	0.24	0.22
United Arab Emirates	414	695	10.9	0.11	0.12
North Africa [a/]	4427	6764	8.8	1.19	1.24
Israel	3014	4043	6.1	0.81	0.75
CEECs [b/]	10336	26115	20.4	2.79	4.83

Source: Eurostat.

a/ North Africa covers Morocco, Tunisia and Algeria.
b/ CEECs: Central and Eastern European countries.

85. The EU share in the region's exports of food and live animals [SITC, section 0] increased from 0.3% in 1980 to 0.5% in 1986 and to 0.8% in 1989-1992. These increases, though modest, caused the region's exports (of this SITC section) to increase from $126 million in 1980 to $164 million in 1989 and to $187 million in 1991. The increase in the region's food exports to the EU mainly resulted from the preferential treatment granted to agricultural products by the cooperation agreements of the EU with selected ESCWA member countries.

5. *Imports*

86. 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 GCC countries and more diversified economy groups of countries experienced similar patterns in the share of imports from the EU with regard to their total imports. This EU share, close to 35%, is common to the region as a whole as well as to the region's two major subgroups of countries (see table 5).

87. Most ESCWA member countries are traditional importers from the EU; however, the importance of the latter as a source of supply differs significantly from one member country to another. Among the GCC countries group, Bahrain showed the least dependence on the EU with an average share of 20% to its total imports from the EU during the period 1980-1992. Qatar reported the highest average share—42%—followed by Saudi Arabia with 35%. While the average shares of supply provided by the EU to Oman, Kuwait and the United Arab Emirates (33% each) were the closest to the average of 34.1% reported by the ESCWA region as a whole and by both country groups.

TABLE 7. ESCWA REGION: COMMODITY STRUCTURE OF EXPORTS TO THE EU (SITC, REV. 3, ONE-DIGIT LEVEL)

(Percentage shares)

SITC	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
0	0.3	0.1	0.2	0.4	0.3	0.3	0.5	0.7	1.0	0.8	0.8	0.9	0.8	1.0
1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	0.8	0.6	0.5	2.0	0.6	1.7	1.9	1.6	2.4	2.0	1.6	1.5	1.2	1.3
3	94.3	97.3	96.1	88.6	94.2	92.2	88.3	87.1	77.7	84.0	83.0	81.3	78.0	78.0
4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	0.1	0.0	0.0	0.2	0.3	1.4	2.7	2.5	3.6	2.4	2.9	2.8	2.4	2.0
6	1.4	0.3	0.6	2.1	1.2	1.2	1.8	2.2	3.4	2.9	3.3	3.3	3.4	2.6
7	0.8	0.6	1.4	2.9	1.4	1.7	1.8	2.7	6.7	3.6	4.0	5.6	8.1	8.6
8	0.3	0.2	0.4	0.9	0.7	0.6	0.9	1.0	1.6	1.6	2.2	2.9	3.6	4.7
9	2.1	0.7	0.8	2.9	1.2	0.9	2.2	2.1	3.6	2.7	2.1	1.8	2.3	1.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total exports (Millions of US$)	35463	61891	39577	21533	24617	22089	18615	19498	16662	20128	23351	22554	22031	19687

Source: Compiled by the ESCWA secretariat from Eurostat (electronic data).

For reference: United Nations Standard International Trade Classification (SITC) Revision 3.

Section code	Description	Section code	Description
0	Food and live animals	5	Chemicals and related products, n.e.s.
1	Beverages and tobacco	6	Manufactured goods classified chiefly by material
2	Crude materials, inedible, except fuels	7	Machinery and transport equipment
3	Mineral fuels, lubricants and related materials	8	Miscellaneous manufactured articles
4	Animal and vegetable oils, fats and waxes	9	Commodities and transactions not classified elsewhere in SITC

88. Among the ESCWA region's more diversified economies,the former Democratic Yemen was the least dependent on the EU,with an average share of imports from the EU of 22.7%, followed by Jordan with 30.1%. The shares of the two countries were below the average share of the group (34%). Lebanon had a share of 42.8%; Iraq 37.8%; the Syrian Arab Republic 37.2%; and the former Yemen Arab Republic 35.4% reported higher shares than the group average. The share of Egypt (33.2 %) was the closest to the group average.

6. *Commodity structure of imports of the ESCWA region from the European Union*

89. The commodity structure (based on SITC Rev. 3—one-digit level) of the region's imports from the EU during the years 1980-1993 shows that sections 1 (beverages and tobacco), 2 (crude materials, except fuels), 3 (fuels) and 4 (animal and vegetable oils and fats) had very small percentage shares in the region's imports from the EU. Their contributions ranged between 1.0% and 1.5%, 0.6% and 1.1%, 0.6% and 3.4% and 0.2% and 7.8% respectively (table 8). The shares of the rest of the sections, however, were much more significant, especially section 7 (machinery and transport equipment), which started with 42.3% in 1980 but dropped to 41.3% in 1983 and 35.4% in 1986. The lowest contribution was in 1989 (32.2%) but it rose again to 35.8% in 1991 and 41.6% in 1993. Section 6 (manufactured goods) came second with a share of 18.7% in 1980 which rose in the following years until it reached its highest level, 20.8%, in 1985 before it underwent a decline to settle at 15.2% in 1993. Section 8 (miscellaneous manufactured articles) came third; its share increased from 10.4% in 1980 to 13.1% in 1985, then started to drop until it reached 10.5% in 1991 but rose again to 12% in 1992 and 1993. Section 0 (food and live animals) occupied a share of 10.1% in 1980; this meant that the region's imports of food from the EU alone reached $3.1 billion. This share dropped in the following three years, to rise again to 11.2% in 1984. It continued to rise in the following years until it reached its highest level, 13.8%, in 1988. In 1989 another declining trend started and the share settled at 10.4% in 1992 and 10.5% in 1993. These developments indicate that the EU is a stable and important supplier of food and live animals to the region.

7. *ESCWA region trade balance with the European Union*

90. The trade balance between the ESCWA region and the EU, according to Eurostat figures, reported a large surplus of $26.6 billion in 1981 owing to the large quantity of oil exports and the high price level of $34 per barrel. The surplus, however, dropped significantly in the next year to only $1.1 billion, as a result of a decline in exports by around 40% and a rise in imports by 25% (table 9). In 1983, the trade balance was in a deficit of $19.5 billion, the highest during the period under study, but dropped to $9.3 billion in the next year and remained around this level in the following four years until it declined to its lowest level—$1.8 billion—in 1987, as imports hit bottom in that year. The deficit started to increase again, however, as imports increased faster than exports especially following the Gulf war, until the deficit recorded its highest level, $12.3 billion, in 1992.

However, another source of data[3] gives a somewhat different picture, showing the trade balance surplus as lower in the first year and the deficits larger in the remaining years.

8. *Country/commodity structure of exports to the European Union*

91. The ESCWA region's commodity structure of exports by country to the EU during the period 1980-1992 (table 10) shows that the exports of two countries, Iraq and Kuwait, concentrated on SITC section 3 (mineral fuels, lubricants and related materials). In Iraq the concentration was even larger than that of

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[3] IMF, *Direction of Trade Statistics Yearbook*, various issues.

Kuwait when in 1980, oil made up 99.6% of Iraq's exports to the EU. This share remained high though it dropped slightly to 98% in 1985 and 1986, and further to 97% in 1989. In Kuwait, oil made up an average of 97% of the country's total exports to the EU up to 1990. In 1991, and owing to the destruction of oil installations during the Gulf war, the share dropped to only 3.3%. Consequently, SITC section 7 (machinery and transport equipment) (mainly re-exports) made up 45.9%, followed by section 8 (miscellaneous manufactured articles) and section 6 (manufactured goods) with 15.8% and 10.8% respectively; section 0 (food and live animals) made up 8.3%. This dramatic change in Kuwait's commodity structure of exports to the EU, however, was only temporary and the old pattern was largely resumed in 1992, when the share of oil exports jumped back to 75.1% and the export (mainly re-export) of machinery and equipment made up 21% of Kuwait's total exports to the EU. The exports of both Saudi Arabia and Qatar to the EU consisted almost entirely of oil during the first three years, with average shares equal to 98.3% and 98.6% respectively. The share, however, started on a declining trend in both countries in the following years, to settle in Qatar at 15.6% in 1992, while in Saudi Arabia it dropped to 82.7% in 1989 but rose again to 88.3% in 1992 as that country made up for the absence of both Iraq and Kuwait from the oil market.

92. The large drop in the share of oil in Qatar's exports to the EU was taken up by exports in SITC section 7 (machinery and transport equipment); the share of this section in Qatar's total exports increased from only 8.2% in 1989 to 52.5% in 1991 and 68.4% in 1992. Both Oman and the United Arab Emirates had, from the beginning, relatively more diversified patterns of exports to the EU than other GCC countries. In Oman, oil made up an average of 90% of the country's total exports to the EU in the years 1980-1982, but dropped in 1984 to 83.3%, thus providing room for larger shares of exports from both sections 7 and 9. Beginning in 1984, the share of oil in Oman's exports to the EU dropped significantly, to an average of 34% while exports from sections 7, 8 and 9 increased largely to make up the rest of the country's exports. In 1991, however, oil resumed its importance in Oman's exports to the EU when the share jumped back to 91.6% but it dropped sharply again in 1992. In the United Arab Emirates, the share of oil in exports to the EU continued to be important despite its decline from 91.4% in 1980 to 69.2% in 1991, while the shares of exports from sections 7, 8 and 9 showed large increases. Finally, although the EU has been Bahrain's least significant market for exports, the pattern of Bahrain's exports to the EU is the most diversified one among this group. Oil made up a significant contribution only in the first two years (1980-1981), 58.7% and 74.5% respectively, then dropped sharply in the following years to between 30% and 43%. During the years 1988-1992, and as the importance of oil significantly diminished, exports from section 6 (manufactured goods) occupied the forefront, followed by sections 7, 8 and 9. To sum up, for GCC countries, oil is still the dominating item in their exports to the EU; however, apart from Kuwait and Iraq (owing to the sanctions on the latter) more diversification was evident in their exports during the period 1989-1992.

93. For the other ESCWA member countries, oil was also the dominating export item to the EU in Egypt and the Syrian Arab Republic in all the years under study. In Egypt, however, the share of oil in total exports dropped from 88.9% in 1981 to 61.4% in 1992. Section 6 (manufactured goods) came second in all the years, with an increasing share, followed by sections 0, 2, 7 and 8. In the Syrian Arab Republic the pattern of exports did not expand beyond oil (section 3) and crude materials (section 2) but oil was far more significant, with a share that ranged between 94.8% in 1980 and 78.8% in 1986 but increased again to an average of 88.3% in 1989 and 1992. Jordan, Lebanon and Yemen had (in the first three years only) much more diversified patterns of exports than Egypt and the Syrian Arab Republic. In all of them section 2 exports made up a significant contribution and were the first item most of the years from 1980 to 1992. In Yemen, however, the pattern of exports to the EU completely changed in 1988 when oil started to be exported at commercial level and made up 95.6% of the country's total exports to the EU. The percentage increased even further in the following years, to 98% in 1989, but dropped to an average of 96% in 1990-1992.

TABLE 8. ESCWA REGION: COMMODITY STRUCTURE OF IMPORTS FROM THE EU (SITC. REV. 3)

(Percentage shares)

SITC	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
0	10.1	9.7	6.2	8.9	11.2	11.7	12.2	12.8	13.8	12.7	13.1	10.7	10.4	10.5
1	1.1	1.0	1.2	1.3	1.2	1.2	1.3	1.3	1.5	1.3	1.3	1.5	1.5	1.1
2	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.8	0.8	0.7	0.8	1.1	1.1	1.0
3	2.7	3.4	3.0	1.9	1.3	1.2	1.0	0.7	0.6	0.6	0.8	1.3	0.8	1.9
4	0.4	0.3	0.2	0.3	7.8	0.7	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3
5	7.5	6.9	6.8	6.9	7.9	10.0	10.4	11.2	12.0	11.2	11.7	12.0	12.5	11.4
6	18.7	19.6	19.3	18.3	17.5	20.8	17.4	15.5	16.5	16.9	14.2	15.2	15.0	15.2
7	42.3	44.8	45.3	41.3	34.0	35.0	35.4	32.6	33.6	32.2	35.3	35.8	37.6	41.6
8	10.4	11.0	11.2	12.5	11.8	13.1	12.4	11.9	12.1	10.7	10.8	10.5	12.0	11.9
9	6.0	2.6	6.2	8.0	6.8	5.8	8.9	12.7	8.6	13.3	11.7	11.4	8.7	5.2
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Total imports (millions of US$)	30741	35324	38519	41035	33859	27169	25785	21262	26464	27518	29488	32174	34288	33720

Source: Compiled by the ESCWA secretariat from Eurostat (electronic data).

For reference: United Nations Standard International Trade Classification (SITC) Revision 3.

Section code	Description	Section code	Description
0	Food and live animals	5	Chemicals and related products, n.e.s.
1	Beverages and tobacco	6	Manufactured goods classified chiefly by material
2	Crude materials, inedible, except fuels	7	Machinery and transport equipment
3	Mineral fuels, lubricants and related materials	8	Miscellaneous manufactured articles
4	Animal and vegetable oils, fats and waxes	9	Commodities and transactions not classified elsewhere in SITC

TABLE 9. ESCWA REGION: TRADE BALANCE WITH THE EUROPEAN UNION, 1980-1993

(Billions of US dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Eurostat est.[a/]												
Exports	61.9	39.6	21.5	24.6	22.1	18.6	19.5	16.7	20.1	23.3	22.5	22.0
Imports	35.3	38.5	41.0	33.9	27.2	25.8	21.3	26.5	27.5	29.5	32.2	34.3
Trade balance	**26.6**	**1.1**	**-19.5**	**-9.3**	**-5.1**	**-7.2**	**-1.8**	**-9.8**	**-7.4**	**-6.2**	**-9.7**	**-12.3**
IMF est.[b/]												
Exports	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	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	**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[c/] **(thousand barrel/day)**												
Iraq	447	424	435	594	678	752	890	970	870	575	_	_
Kuwait	164	62	91	116	123	326	210	265	270	227	19	131
Qatar	183	115	73	106	48	48	36	5	15	11	6	6
Saudi Arabia	3 827	1 994	999	733	605	1349	705	786	879	1 042	1 707	1738
United Arab Emirates	327	174	331	274	147	173	185	90	160	210	200	193
Total	**4 948**	**2 768**	**1 929**	**1 822**	**1 600**	**2 648**	**2 027**	**2 116**	**2 194**	**2 065**	**1 932**	**2 068**
Memo item:												
Average oil $ price/barrel	**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: a/ Eurostat.

b/ IMF, *Direction of Trade Statistics Yearbook*, various issues

c/ OPEC, *Annual Statistical Bulletin(s)*, 1984, 1987, 1990 and 1993.

9. Country/commodity structure of imports from the European Union

94. The commodity structure of the region's imports from the EU during the period 1980-1992 was largely stable, meaning that no major changes took place between the beginning and the end of the period (table 11). The pattern of imports for both groups—the major oil-exporting countries and other ESCWA member countries—was very similar. The similarity can be noticed in the following:

TABLE 10. ESCWA REGION: COUNTRY/COMMODITY STRUCTURE* OF EXPORTS TO THE EU

(Percentages)

	1980		1981		1982		1983		1984		1985		1986		1987		1988		1989		1990		1991		1992	
	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%
Bahrain	3	(58.7)	3	(74.5)	3	(41.7)	3	(55.7)	3	(43.0)	3	(51.7)	6	(40.2)	3	(31.1)	6	(37.5)	6	(34.0)	6	(38.4)	6	(43.8)	6	(38.9)
	7	(15.5)	7	(12.8)	7	(37.4)	7	(15.7)	6	(20.6)	7	(23.5)	5	(16.8)	6	(21.0)	7	(30.7)	5	(28.1)	7	(19.7)	3	(19.8)	9	(14.9)
	8	(11.9)	8	(6.8)	8	(11.4)	8	(11.1)	7	(16.5)	5	(8.1)	3	(15.4)	7	(19.4)	5	(15.2)	7	(16.0)	5	(17.4)	7	(13.1)	8	(12.6)
	6	(9.2)					6	(9.8)	8	(7.6)	2	(6.4)	7	(9.7)	5	(14.8)	3	(6.1)	9	(8.3)	9	(12.6)	8	(9.3)	3	(12.5)
									9	(6.4)			9	(9.1)	9	(7.4)			8	(8.2)	8	(9.2)	5	(8.1)	7	(10.3)
Iraq	3	(99.6)	3	(98.8)	3	(98.0)	3	(97.8)	3	(98.1)	3	(98.6)	3	(97.5)	3	(97.7)	3	(96.2)	3	(96.7)	3	(96.0)	-	-	-	-
Kuwait	3	(96.9)	3	(97.6)	3	(95.2)	3	(96.6)	3	(96.8)	3	(97.5)	3	(97.2)	3	(97.4)	3	(94.7)	3	(95.2)	3	(95.7)	7	(45.9)	3	(75.1)
																							8	(15.8)	7	(21.0)
																							6	(10.8)		
																							0	(8.3)		
																							9	(4.2)		
																							3	(3.3)		
Oman	3	(88.6)	3	(91.4)	3	(90.3)	3	(83.3)	3	(33.4)	3	(20.7)	7	(31.3)	3	(68.1)	7	(37.2)	7	(31.4)	8	(36.2)	3	(91.6)	9	(46.2)
	9	(5.6)					7	(6.6)	7	(26.1)	7	(25.8)	9	(27.0)	7	(14.2)	3	(24.9)	8	(27.7)	7	(23.7)			8	(21.1)
	7	(3.2)					9	(6.1)	8	(23.7)	8	(19.2)	8	(29.5)	9	(8.6)	9	(22.8)	9	(23.7)	9	(18.8)			7	(20.0)
									9	(9.3)	9	(15.8)	3	(14.7)			8	(11.4)	3	(8.8)	0	(9.8)			0	(8.8)
																					3	(6.2)				
Qatar	3	(99.3)	3	(99.4)	3	(99.0)	3	(96.7)	3	(97.5)	3	(96.5)	3	(92.7)	3	(85.5)	3	(59.1)	3	(72.7)	3	(54.5)	7	(52.5)	7	(68.4)
															5	(7.5)	7	(16.7)	5	(11.5)	7	(29.4)	3	(39.0)	3	(15.6)
																	5	(12.6)	7	(8.2)	5	(5.2)			9	(11.9)
																	9	(3.5)								
Saudi Arabia	3	(98.4)	3	(98.8)	3	(97.7)	3	(95.4)	3	(95.8)	3	(92.2)	3	(91.5)	3	(86.4)	3	(70.4)	3	(82.7)	3	(86.0)	3	(89.4)	3	(88.3)
															5	(5.7)	5	(13.6)	5	(7.7)	5	(5.4)	5	(3.8)	7	(4.5)
																	7	(8.0)								
United Arab Emirates	3	(91.4)	3	(93.8)	3	(95.6)	6	(42.0)	3	(95.8)	3	(93.0)	3	(81.2)	3	(85.1)	3	(72.5)	3	(70.8)			3	(69.2)		
							9	(41.5)					9	(9.9)	9	(5.4)	7	(9.5)	7	(15.0)			7	(13.4)		
							8	(8.3)									9	(7.4)	8	(5.4)			8	(11.7)		
																	8	(3.9)								
Egypt	3	(80.4)	3	(88.9)	3	(84.0)	3	(82.3)	3	(82.5)	3	(83.6)	3	(69.9)	3	(72.4)	3	(59.7)	3	(67.5)	3	(63.6)	3	(64.1)	3	(61.4)
	6	(6.6)	2	(3.3)	6	(6.2)	2	(6.1)	6	(7.4)			6	(13.4)	6	(13.9)	6	(21.8)	6	(19.2)	6	(18.9)	6	(16.2)	6	(15.7)
	0	(3.7)					6	(6.0)					2	(7.9)	2	(6.0)	2	(6.8)	2	(3.9)	7	(6.4)	7	(6.0)	7	(9.4)
																	0	(4.6)			0	(3.4)	8	(4.4)	8	(4.5)

TABLE 10. *(continued)*

	1980		1981		1982		1983		1984		1985		1986	
	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%
Jordan	2	(34.4)	7	(49.8)	7	(39.5)	9	(22.2)	1	(22.4)	3	(44.2)	5	(36.8)
	7	(29.5)	2	(30.4)	8	(20.0)	6	(18.7)	2	(20.5)	7	(16.0)	7	(20.3)
	9	(22.5)	8	(12.0)	2	(19.9)	2	(16.8)	7	(20.3)	5	(15.7)	9	(16.2)
	8	(9.1)			9	(12.6)	8	(15.2)	3	(18.4)	2	(14.2)	2	(11.4)
							7	(13.4)	5	(13.4)			3	(10.5)
							3	(12.3)						
Lebanon	2	(38.4)	8	(31.4)	3	(49.9)	2	(48.0)	2	(63.7)	2	(63.8)	2	(47.2)
	6	(22.5)	6	(20.8)	2	(16.3)	7	(18.4)	8	(10.1)	6	(13.3)	6	(16.6)
	8	(21.7)	2	(19.4)	7	(10.0)	8	(14.3)	6	(9.9)	8	(8.8)	8	(15.5)
	0	(6.5)	3	(10.8)	8	(9.8)	9	(7.0)	9	(9.2)	7	(5.5)	0	(6.5)
	7	(5.3)	7	(5.8)	6	(4.5)	6	(6.8)					7	(6.5)
			0	(5.2)										
Syrian Arab Republic	3	(94.8)	3	(94.6)	3	(94.8)	3	(86.8)	3	(78.8)	3	(87.0)	3	(78.8)
							2	(11.4)	2	(19.2)	2	(11.4)	2	(17.9)
Yemen	2	(45.9)	7	(40.3)	2	(43.9)	3	(28.0)	3	(45.6)	3	(56.9)	2	(45.4)
	9	(24.4)	2	(34.5)	7	(23.6)	2	(23.2)	2	(24.4)	2	(19.6)	7	(18.8)
	3	(20.6)	0	(10.7)	9	(16.0)	7	(20.0)	7	(17.6)	7	(10.7)	3	(13.1)
	7	(5.2)	9	(4.8)	0	(12.7)	9	(14.2)	8	(8.0)	8	(5.3)	8	(7.8)
							5	(6.3)					0	(7.2)

	1987		1988		1989		1990		1991		1992	
	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%
Jordan	7	(34.3)	5	(37.1)	2	(21.0)	7	(32.1)	7	(28.6)	9	(32.4)
	5	(29.9)	7	(25.0)	7	(18.9)	2	(19.5)	2	(28.1)	7	(23.9)
	9	(13.7)	9	(13.4)	9	(17.9)	8	(19.3)	8	(14.1)	2	(18.9)
	2	(9.4)	2	(11.7)	5	(16.7)	5	(13.6)	5	(10.9)	8	(10.7)
	3	(6.2)	8	(9.5)	8	(13.5)	9	(8.9)	9	(8.9)	5	(6.1)
					3	(3.8)						
Lebanon	2	(38.1)	2	(31.9)	2	(37.3)	2	(39.9)	8	(29.8)	8	(36.4)
	8	(25.0)	8	(28.4)	6	(23.6)	8	(20.0)	2	(26.1)	6	(25.1)
	6	(17.8)	6	(19.1)	8	(23.3)	6	(18.7)	6	(23.7)	2	(14.9)
	7	(5.3)	9	(7.6)	7	(5.0)	5	(7.9)	7	(9.7)	7	(10.8)
	9	(5.6)	7	(5.9)	5	(4.7)	7	(7.0)	0	(3.8)	9	(4.6)
Syrian Arab Republic	3	(85.0)	3	(75.1)	3	(88.1)	3	(88.8)	3	(88.5)	3	(88.4)
	2	(10.0)	2	(11.1)	2	(7.6)	2	(8.0)	2	(7.8)	2	(6.2)
			7	(10.4)								
Yemen	2	(34.3)	3	(95.6)	3	(98.0)	3	(96.4)	3	(96.4)	3	(94.6)
	3	(26.3)										
	7	(18.9)										
	8	(8.2)										
	6	(8.1)										

Source: Eurostat (electronic data).

* Commodity structure in this table covers all the sections the total of which made up not less than 90% of the country's total exports to the EU.

For reference: United Nations Standard International Trade Classification (SITC) Revision 3.

Section code	Description	Section code	Description
0	Food and live animals	5	Chemicals and related products, n.e.s.
1	Beverages and tobacco	6	Manufactured goods classified chiefly by material
2	Crude materials, inedible, except fuels	7	Machinery and transport equipment
3	Mineral fuels, lubricants and related materials	8	Miscellaneous manufactured articles
4	Animal and vegetable oils, fats and waxes	9	Commodities and transactions not classified elsewhere in SITC

TABLE 11. ESCWA REGION: COUNTRY/COMMODITY STRUCTURE* OF IMPORTS FROM THE EU

(Percentage shares)

	1980		1981		1982		1983		1984		1985		1986		1987		1988		1989		1990		1991		1992	
	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%
Bahrain	7	(36.8)	7	(36.8)	7	(39.5)	7	(40.1)	7	(37.1)	7	(33.7)	7	(26.4)	9	(29.3)	7	(36.1)	7	(48.3)	7	(38.7)	7	(47.5)	7	(47.5)
	6	(18.2)	8	(18.4)	9	(16.4)	6	(18.5)	6	(17.6)	6	(20.9)	6	(18.5)	7	(25.9)	6	(19.6)	6	(13.6)	6	(14.9)	6	(20.4)	8	(14.1)
	8	(14.1)	6	(14.2)	6	(14.9)	9	(14.0)	9	(14.3)	8	(16.4)	8	(17.3)	8	(14.7)	8	(16.3)	9	(11.8)	8	(14.2)	8	(9.9)	6	(13.2)
	9	(11.4)	5	(9.4)	8	(12.8)	8	(12.3)	8	(13.6)	5	(9.0)	9	(16.7)	6	(11.9)	5	(9.2)	8	(10.2)	5	(11.7)	5	(8.6)	5	(10.8)
	0	(7.9)	0	(8.7)	5	(6.5)	5	(6.2)	0	(6.8)	0	(8.5)	0	(8.3)	0	(7.4)	0	(8.0)	0	(6.5)	0	(9.0)	0	(6.5)	0	(6.1)
			9	(6.3)					5	(6.7)	9	(7.2)			6	(6.9)	9	(6.3)			9	(7.4)				
Iraq	7	(57.4)	7	(59.1)	7	(55.6)	7	(53.9)	7	(43.3)	7	(42.4)	7	(46.1)	7	(46.1)	7	(42.1)	7	(41)	7	(51.0)	-	-	0	(66.7)
	6	(19.2)	6	(20.9)	6	(21.8)	6	(16.4)	6	(17.6)	6	(20.9)	6	(16.9)	6	(16.7)	6	(20.1)	6	(26.9)	6	(15.6)	-	-	5	(22.1)
	5	(6.7)	8	(5.2)	8	(6.8)	9	(10.0)	5	(10.8)	5	(10.7)	5	(11.1)	5	(11.3)	0	(13.1)	5	(11.5)	0	(11.7)	-	-	7	(4.1)
	8	(6.5)	5	(5.1)	5	(4.8)	8	(7.2)	9	(8.8)	8	(7.8)	9	(10.7)	0	(10.3)	5	(11.2)	0	(10.5)	5	(10.8)	-	-		
									0	(8.7)	9	(7.7)	8	(7.9)	8	(7.8)	8	(9.7)	8	(6.4)	8	(7.8)	-	-		
Kuwait	7	(39.7)	7	(42.2)	7	(43.2)	7	(43.9)	7	(43.1)	7	(38.6)	7	(36.0)	7	(35.7)	7	(29.3)	7	(34.4)	7	(32.1)	7	(45.9)	7	(42.7)
	8	(17.9)	8	(18.6)	8	(19.2)	8	(19.7)	8	(18.2)	8	(20.2)	8	(19.8)	8	(19.5)	8	(19.4)	8	(17.2)	8	(17.8)	8	(15.8)	8	(16.9)
	6	(17.6)	6	(17.9)	6	(15.5)	6	(14.1)	6	(14.2)	6	(16.6)	6	(15.2)	6	(15.0)	6	(16.6)	6	(16.2)	6	(16.9)	6	(10.8)	6	(16.6)
	0	(7.9)	0	(8.8)	0	(7.0)	9	(7.8)	9	(9.4)	0	(8.6)	0	(9.6)	0	(11.8)	5	(12.8)	0	(13.4)	5	(14.6)	5	(9.2)	5	(9.2)
	5	(7.4)	5	(6.4)	9	(6.5)	0	(6.4)	0	(7.1)	5	(8.4)	5	(8.5)	5	(10.9)	0	(12.6)	5	(11.1)	0	(11.4)	0	(8.3)	0	(8.0)
Oman	7	(41.3)	7	(47.8)	7	(47.5)	7	(37.0)	7	(40.5)	7	(36.8)	7	(40.9)	7	(41.8)	7	(34.4)	7	(28.3)	7	(33.7)	7	(38.7)	7	(50.3)
	9	(15.7)	8	(16.3)	9	(16.7)	9	(31.0)	9	(16.4)	6	(19.4)	8	(16.0)	8	(15.8)	8	(18.4)	9	(23.0)	8	(16.8)	9	(12.3)	8	(11.4)
	6	(14.8)	6	(14.3)	6	(12.1)	6	(11.3)	6	(15.8)	8	(17.7)	9	(14.4)	9	(13.3)	9	(17.4)	8	(18.9)	9	(14.2)	8	(12.1)	5	(10.9)
	8	(11.2)	0	(7.6)	8	(10.2)	8	(8.6)	8	(13.3)	9	(12.4)	6	(14.0)	6	(9.9)	6	(13.0)	6	(10.4)	6	(10.9)	5	(10.8)	6	(8.8)
	0	(6.8)	5	(6.9)	0	(4.7)	0	(5.1)	0	(6.1)	0	(5.7)	0	(6.3)	0	(8.8)	0	(7.5)	0	(9.4)	0	(10.5)	0	(10.4)	9	(8.2)
																					5	(9.8)				
Qatar	7	(50.4)	7	(51.6)	7	(47.2)	7	(42.1)	7	(34.9)	7	(44.3)	7	(40.9)	7	(40.0)	7	(38.8)	7	(42.7)	7	(48.6)	7	(60.0)	7	(56.6)
	6	(17.2)	6	(17.3)	9	(16.3)	8	(15.3)	8	(21.6)	8	(18.0)	8	(17.8)	8	(19.6)	6	(19.0)	6	(18.1)	8	(16.2)	6	(12.2)	8	(12.4)
	8	(12.7)	8	(14.3)	6	(15.1)	9	(15.1)	6	(15.2)	6	(15.3)	6	(16.8)	6	(14.6)	8	(17.6)	8	(14.7)	6	(12.8)	8	(11.8)	6	(11.8)
	5	(7.0)	5	(5.7)	8	(11.2)	6	(13.3)	0	(8.5)	0	(8.5)	0	(8.8)	0	(9.6)	5	(8.5)	0	(8.7)	5	(9.6)	5	(6.4)	5	(7.6)
	0	(5.3)	0	(5.2)	5	(4.2)	0	(5.8)	9	(8.3)	5	(6.5)	5	(7.0)	5	(8.0)	9	(5.1)	5	(8.6)	0	(8.2)	0	(4.6)	0	(5.8)
									5	(8.2)																

TABLE 11. (*continued*)

	1980		1981		1982		1983		1984		1985		1986		1987		1988		1989		1990		1991		1992	
	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%
Saudi Arabia	7	(38.3)	7	(40.2)	7	(42.0)	7	(39.3)	7	(34.8)	7	(30.2)	7	(29.1)	7	(23.5)	7	(29.2)	9	(28.4)	7	(24.9)	7	(28.0)	7	(30.8)
	6	(20.7)	6	(22.0)	6	(20.5)	6	(21.1)	6	(21.6)	6	(23.2)	6	(18.3)	9	(21.6)	6	(16.1)	7	(22.8)	9	(22.9)	9	(20.5)	6	(15.8)
	8	(12.9)	8	(13.1)	8	(13.0)	8	(14.2)	8	(15.6)	8	(17.4)	8	(14.9)	6	(16.0)	9	(14.7)	6	(14.0)	6	(13.4)	6	(15.0)	9	(15.3)
	0	(8.6)	0	(9.3)	0	(7.7)	0	(7.6)	0	(11.7)	0	(11.7)	0	(13.8)	8	(13.6)	8	(13.1)	0	(11.8)	5	(12.6)	5	(12.3)	5	(12.8)
	9	(8.2)	5	(5.9)	5	(6.3)	9	(7.6)	5	(7.1)	5	(9.6)	9	(11.1)	0	(11.9)	0	(12.5)	8	(11.0)	0	(12.1)	0	(11.5)	8	(11.6)
															5	(11.3)	5	(11.3)			8	(11.8)	8	(10.5)	0	(11.4)
United Arab Emirates	7	(44.4)	7	(42.8)	7	(41.3)	7	(37.2)	7	(37.9)	7	(38.5)	7	(35.3)	7	(40.5)	7	(35.3)	7	(38.2)	7	(39.8)	7	(42.4)	7	(42.7)
	6	(19.4)	6	(18.9)	6	(20.3)	6	(19.9)	8	(19.9)	6	(19.8)	6	(16.4)	8	(15.3)	8	(16.3)	6	(16.9)	6	(16.1)	6	(15.9)	6	(15.0)
	8	(11.8)	8	(16.0)	8	(16.7)	8	(19.0)	6	(19.6)	8	(18.5)	8	(15.2)	6	(13.4)	6	(16.2)	8	(14.8)	8	(12.6)	8	(12.7)	8	(14.7)
	5	(7.0)	5	(6.6)	5	(6.3)	5	(7.6)	9	(9.3)	9	(10.4)	5	(9.0)	9	(9.1)	5	(10.9)	5	(9.1)	9	(11.7)	5	(9.7)	5	(9.5)
	9	(6.4)	0	(6.5)	0	(6.2)	9	(6.2)	0	(8.7)	0	(8.5)	9	(10.3)	0	(9.0)	0	(9.0)	0	(8.9)	0	(8.4)	0	(7.8)	9	(7.2)
															5	(8.4)	9	(7.3)			5	(8.2)			0	(6.8)
Egypt	7	(43.2)	7	(44.0)	7	(45.4)	7	(46.6)	7	(42.3)	7	(40.9)	7	(95.4)	7	(39.7)	7	(40.5)	7	(42.1)	7	(46.1)	7	(49.0)	7	(48.1)
	0	(19.3)	0	(18.3)	6	(16.0)	0	(15.0)	0	(17.7)	6	(19.2)	6	(15.9)	0	(17.6)	0	(18.9)	0	(17.3)	0	(14.1)	6	(13.3)	5	(14.9)
	6	(12.7)	6	(14.4)	0	(12.9)	6	(14.9)	6	(16.3)	0	(16.3)	0	(14.5)	6	(15.0)	6	(14.4)	6	(15.4)	6	(13.2)	5	(13.0)	6	(12.3)
	5	(9.5)	5	(9.5)	5	(10.4)	5	(9.6)	5	(10.2)	5	(10.9)	5	(10.3)	5	(13.5)	5	(14.2)	5	(12.7)	5	(11.9)	0	(8.7)	0	(9.5)
	9	(6.6)	8	(5.2)	8	(4.6)	8	(4.6)	8	(4.5)	8	(4.7)	8	(5.5)	9	(5.3)	8	(5.1)	8	(4.7)	8	(5.6)	8	(5.7)	8	(6.3)
Jordan	7	(42.3)	7	(46.3)	7	(33.6)	7	(28.9)	7	(25.1)	7	(32.7)	7	(33.1)	7	(40.3)	7	(37.5)	7	(44.5)	7	(44.6)	7	(28.5)	7	(37.6)
	6	(19.2)	6	(14.7)	9	(24.6)	9	(28.5)	9	21.4)	6	(18.9)	6	(17.6)	6	(13.5)	6	(14.0)	0	(14.8)	0	(18.9)	0	(20.2)	5	(16.5)
	0	(13.4)	8	(11.8)	6	(12.3)	6	(13.7)	6	(18.7)	8	(12.7)	0	(16.0)	9	(11.3)	0	(12.5)	6	(11.9)	5	(11.8)	5	(17.2)	0	(14.3)
	8	(9.7)	0	(10.2)	3	(8.1)	8	(10.7)	0	(13.1)	0	(11.4)	5	(13.4)	0	(11.2)	9	(11.7)	5	(10.3)	6	(9.3)	6	(15.8)	6	(13.4)
	5	(8.4)	5	(6.8)	0	(7.6)	0	(7.7)	8	(10.2)	9	(10.8)	5	(12.7)	8	(10.5)	5	(10.9)	8	(10.1)	8	(7.2)	8	(8.7)	8	(9.4)
Lebanon	7	(29.9)	7	(26.8)	7	(25.5)	7	(27.9)	6	(23.6)	6	(27.1)	6	(26.4)	6	(26.6)	6	(21.9)	7	(20.7)	8	(21.8)	8	(21.4)	8	(23.2)
	6	(22.0)	6	(21.9)	6	(20.4)	6	(21.4)	7	(20.8)	7	(19.2)	7	(22.6)	7	(20.5)	7	(21.4)	8	(18.9)	7	(18.8)	6	(20.9)	7	(20.7)
	8	(16.6)	8	(19.4)	8	(20.1)	8	(19.4)	8	(19.1)	8	(17.3)	9	(14.4)	5	(14.9)	8	(16.8)	0	(18.7)	6	(18.2)	7	(20.1)	6	(20.7)
	5	(12.3)	0	(13.3)	0	(12.6)	0	(10.6)	0	(13.5)	5	(13.0)	0	(13.2)	0	(14.2)	0	(15.8)	6	(18.0)	0	(17.6)	0	(13.8)	5	(13.6)
	0	(10.3)	5	(10.6)	5	(9.9)	5	(9.6)	5	(12.1)	0	(12.4)	5	(12.8)	8	(11.5)	5	(12.4)	5	(12.6)	5	(14.0)	5	(12.1)	0	(11.8)
							9	(8.2)					3	(3.0)					9	(2.6)			3	(4.7)		

TABLE 11. *(continued)*

	1980		1981		1982		1983		1984		1985		1986		1987		1988		1989		1990		1991		1992	
	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%	sec.	%
Syrian	7	(34.3)	7	(38.5)	7	(38.5)	7	(38.5)	7	(31.5)	7	(31.0)	7	(28.5)	7	(25.5)	7	(28.4)	0	(26.2)	0	(29.2)	7	(27.4)	0	(36.4)
Arab	6	(19.8)	6	(23.3)	6	(18.6)	6	(18.0)	6	(22.4)	6	(26.1)	6	(19.8)	0	(20.9)	6	(22.6)	7	(25.1)	7	(26.7)	6	(21.6)	6	(19.0)
	0	(14.9)	5	(11.8)	5	(14.2)	0	(14.7)	0	(15.8)	5	(15.4)	0	(17.8)	6	(20.6)	0	(22.0)	6	(18.8)	6	(17.4)	0	(18.2)	5	(16.4)
Republic	5	(10.5)	0	(11.5)	0	(13.2)	5	(13.9)	5	(15.7)	0	(13.6)	5	(17.8)	5	(16.6)	5	(13.9)	5	(16.1)	5	(15.1)	5	(16.8)	0	(15.6)
	3	(10.0)	8	(5.0)	8	(5.2)	8	(5.3)	9	(4.9)	8	(5.0)	8	(5.53)	8	(5.6)	8	(5.0)	8	(5.3)	8	(4.5)	8	(5.3)	8	(5.3)
																							9	(3.5)		
Yemen	0	(33.9)	0	(32.1)	0	(32.4)	0	(29.9)	0	(38.7)	0	(32.2)	0	(30.8)	0	(27.5)	0	(38.2)	0	(36.6)	0	(35.1)	0	(30.5)	7	(30.7)
	7	(29.5)	7	(29.7)	7	(29.1)	7	(29.4)	7	(22.8)	7	(27.3)	7	(23.4)	7	(25.2)	7	(20.0)	7	(29.9)	7	(22.4)	7	(22.7)	0	(22.3)
	6	(12.5)	6	(14.8)	5	(11.6)	5	(13.9)	5	(13.2)	6	(13.4)	5	(15.7)	6	(14.6)	5	(14.3)	5	(10.7)	5	(15.0)	5	(16.2)	5	(14.5)
	5	(11.0)	5	(11.2)	6	(10.6)	6	(9.2)	6	(12.2)	5	(13.3)	6	(13.1)	5	(14.5)	6	(13.2)	6	(9.9)	6	(10.8)	6	(12.6)	6	(12.2)
	9	(4.5)	3	(4.4)	8	(5.9)	8	(5.3)	8	(4.7)	8	(4.9)	9	(6.6)	8	(7.2)	8	(5.2)	8	(4.6)	1	(5.6)	8	(5.2)	8	(8.1)

Source: Compiled by the ESCWA secretariat from Eurostat (electronic data).

* Commodity structure in this table covers all SITC sections the total value of which made up not less than 90% of the country's total imports from the EU.

For reference: United Nations Standard International Trade Classification (SITC) Revision 3.

Section code	Description	Section code	Description
0	Food and live animals	5	Chemicals and related products, n.e.s.
1	Beverages and tobacco	6	Manufactured goods classified chiefly by material
2	Crude materials, inedible, except fuels	7	Machinery and transport equipment
3	Mineral fuels, lubricants and related materials	8	Miscellaneous manufactured articles
4	Animal and vegetable oils, fats and waxes	9	Commodities and transactions not classified elsewhere in SITC

(a) Four sections: 1 (beverages & tobacco), 2 (crude materials, inedible, except fuels), 3 (mineral fuels, lubricants and related materials) and 4 (animal and vegetable oils and fats) were of very little importance in the imports of all member countries from the EU.

(b) Imports of manufactured goods (sections 6, 7 and 8) made up, for most countries and for most of the years during 1980-1992, around 75% of their total imports from the EU. In all of them, excluding Yemen for all the years and Lebanon for some years, the share of machinery and transport equipment (section 7) came first, with percentages that ranged between more than 25% and above 50%. In Yemen the imports of food came first, with a percentage of not less than 30% during the whole period under study, except in 1992 when the imports of machinery and equipment came first and the import of food came second with 22.3%. Egypt also showed significant reliance on food imports from the EU for most of the years in this period.

95. In addition to manufactured products, the region's imports from the EU also covered three other sections: 0 (food and live animals), 5 (chemicals) and 9 (commodities and transactions not classified according to kind), but to a much lesser degree than manufactured products. However, the other ESCWA member countries were more dependent on the EU as a food supplier than the GCC countries.

96. On a country level, in Bahrain the imports of manufactured products (sections 6, 7 and 8) made up 69% of the country's total imports from the EU in 1980, with section 7 (machinery and transport equipment) ranked first with a share of 36.8%. The share of manufactured goods in imports remained high in the following years, but with larger percentages of imports from sections 0, 5 and 9. However, the percentage of food imports from the EU in Bahrain's total imports of food ranged between 15%-18% during 1980-1992, which indicates that the EU is not Bahrain's main food supplier (table 12).

97. Other GCC countries had the same pattern: the largest share of their imports from the EU was for manufactured goods, mainly machinery and transport equipment, while the rest was for food and chemicals or food and miscellaneous goods. In most of the years during 1980-1992, the share of food was less than 10% in Kuwait, Oman, Qatar and the United Arab Emirates but more important for Saudi Arabia, where the share increased from an average of 8% in 1980-1983, equivalent to 22% of the country's total imports of food, to 13.8% in 1986, then dropped to an average of 12% in 1990-1991. Consequently, the EU supplied 40% of the country's total imports of food in 1986, but this figure dropped to 36% and 39% in 1989 and 1991 respectively.

98. Owing to the weight of Saudi Arabia in the GCC countries group, the EU percentage share in the group's total imports of food increased from 19.4% in 1980 to 20.8% in 1983 then jumped to about 30% in 1986. After a slight drop—to 27.7% in 1989—it continued its rising trend to reach 31.1% in 1991.

99. The commodity structure of imports of other ESCWA member countries from the EU was similar to that of the GCC countries in some ways but differed in others. The similarity was evident in the domination of manufactured products, especially sections 7 and 6, and the recurrence of sections 0 (food and live animals) and 5 (chemicals). However, with regard to the share of food in the total imports from the EU by the second group of ESCWA member countries (excluding Iraq), it was higher than the share reported by the GCC countries. The highest shares, between 30% and 36.6%, were recorded by Yemen for all the years, but fluctuated widely in other member countries, and ranged between 11.5% and 38.7% in the Syrian Arab Republic, 7.7% and 20% in Jordan, 8.7% and 19.3% in Egypt and 10.6% and 18.7% in Lebanon. However, while the importance of the EU as a food supplier increased for the GCC countries, from 19.4% in 1980 to 31.1% in 1991 with participation by all member countries except Oman, it decreased for other ESCWA member countries, from 54.6% in 1980 to 36.4% in 1986, and to 27.8% in 1991. The drop was mainly attributed to the decline in the reliance of Egypt on the EU as its main food supplier. In 1980, Egypt's food imports from the EU made up 61.7% of the country's total imports; this figure dropped to 47.2% in 1986 and to 23.9% in 1991.

TABLE 12. ESCWA REGION: THE RELATIVE IMPORTANCE OF IMPORTS FROM THE EU OF SITC SECTION 0 (FOOD AND LIVE ANIMALS) TO THE REGION'S TOTAL IMPORTS OF THIS SECTION

(Millions of US dollars)

	1980			1983			1986			1989			1991		
	World	EU	EU/World %	World	EU	EU/World %	World	EU	EU/World %	World	EU	EU/World %	World	EU	EU/World %
Bahrain	234.2	35.4	15.1	201.1	37.9	18.8	233.2	42.3	18.1	290.2	47.9	16.5	309.6	54.1	17.5
Kuwait	932.5	162.9	17.5	914.6	162.0	17.7	916.7	177.4	19.4	1 090.9	246.8	22.6	314.5	77.4	24.6
Oman	254.0	37.3	14.7	310.1	55.7	18.0	340.1	67.6	19.9	434.3	76.5	17.6	588.0	102.0	17.3
Qatar	208.9	29.0	13.9	185.0	39.6	21.4	189.5	40.1	21.1	221.2	42.4	19.2	291.7	39.2	13.4
Saudi Arabia	4 049.8	869.6	21.5	4 207.5	943.4	22.4	2 807.0	1 122.1	40.0	3 163.4	1 148.7	36.3	3 710.6	1 453.8	39.2
United Arab Emirates	1 049.0	172.9	16.5	887.8	156.6	17.6	1 085.8	208.9	19.2	1 533.6	305.2	19.9	1 608.8	397.7	24.7
Total GCC	**6 728.5**	**1 307.1**	**19.4**	**6 706.1**	**1 395.1**	**20.8**	**5 572.3**	**1 658.4**	**29.8**	**6 733.6**	**1 867.6**	**27.7**	**6 823.1**	**2 124.2**	**31.1**
Iraq	...	281.0	...	426.2	216.7	50.8	987.8	152.5	15.4	1 667.7	352.7	21.1	...	51.4	...
Egypt	1 350.0	832.4	61.7	1 781.7	701.5	39.4	1 356.7	640.7	47.2	2 368.3	719.2	30.4	1 912.8	457.9	23.9
Jordan	416.5	128.1	30.8	507.6	96.5	19.0	473.1	131.7	27.8	362.0	147.7	40.8	657.2	164.9	25.1
Syrian Arab Republic	546.7	258.9	47.3	834.4	160.4	19.2	416.8	181.5	43.5	497.3	225.2	45.3	639.4	206.3	32.3
Yemen	727.0	160.4	22.1	540.5	148.0	27.4	177.8	137.1	77.1	690.4	166.8	24.2	625.3	174.1	27.8
Other ESCWA member countries[a/]	**3 040.2**	**1 660.8**	**54.6**	**4 090.4**	**1 323.1**	**32.3**	**3 412.2**	**1 243.5**	**36.4**	**5 585.7**	**1 611.6**	**28.9**	**3 834.7**	**1 054.6**	**27.5**
ESCWA region	**9 768.6**	**2 967.8**	**30.4**	**10 796.5**	**2 718.2**	**25.2**	**8 984.5**	**2 901.9**	**32.3**	**12 319.3**	**3 479.2**	**28.2**	**10 657.8**	**3 178.8**	**29.8**

Source: Compiled by th ESCWA secretariat from national and international sources. Imports of section 0 from the EU are derived from Eurostat electronic data.

a/ Excluding Lebanon owing to lack of data on commodity structure of imports from world.

III. THE EFFECTS OF THE SINGLE EUROPEAN MARKET ON TRADE WITH THE ESCWA REGION THROUGH TRADE CREATION, TRADE DIVERSION AND TERMS OF TRADE EFFECT*

100. The most important of the effects of the Single European Market on trade with third countries are those effects that are used to justify—*ex post* if not *ex ante*—the original establishment of the EU. These are the effects for which Jacob Viner provided the original theoretical foundation and for which he introduced the terms "trade creation" and "trade diversion". It was because of the continued, even increasing, presence of trade barriers within the EU that the 1992 programme (SEM) was originally envisaged. These barriers served to limit the exploitation of the potential gains to the Union from the establishment of the customs union. They meant that intra-EU trade was below what it would have been without the non-tariff barriers on other member States' exports. They meant that some goods were being produced in more than one EU country and others were being imported from third countries at a higher cost than that nominally prevailing internally, given the tariff preference for intra-EU trade. They also meant that, at least in part, the "dynamic" effects of integration—the economies of scale, the effects of improved competition, the reductions in X-inefficiencies (increased technical efficiency)[1]—were being left untapped. It was believed that through the removal of obstacles to intra-Union trade, innovation would be encouraged, both in terms of technical progress and in the development of new products. These would have effects on the volume of trade within and outside the EU.

101. 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).[2]

102. 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 reason 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

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* Sheila Page and Michael Davenport acted as consultants to ESCWA for the preparation of this chapter.

1 X-inefficiencies: Failure to utilize resources effectively in the pursuit of cost-minimization. (See: B.U. Marshall, "Comparative Economics, part one, institutional and applied" [2nd edition], p. 339.)

2 There is a clear discrepancy between Viner's original concepts of trade creation and diversion and their usage in the SEM context. The term "trade diversion" is here used to refer to the total displacement of imports from suppliers outside the EU to those within, caused by the elimination of intra-EU trade barriers or by other SEM-related cost reductions. On the assumption that barriers were not actually higher within the EU than to trade from outside, this will meet the Vinerian definition. But the term "trade creation" is used for the increase in extra-EU imports stimulated by the rise in EU output and incomes. This usage is at variance with the traditional trade-theoretic meaning of intra-union trade created by the price effects of removing barriers, but it has become general usage in the SEM context.

changes in relative EU preferences or trade barriers, they cannot be evaluated without a thorough knowledge (yet to be acquired) of the details of the EU commitments under the new multilateral arrangements.

A. TRADE CREATION EFFECT

103. 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. This has been the source of much controversy. The Cecchini Report arrived at a range, roughly centred on 5%. This has been criticized as both too optimistic and too pessimistic.[3] However, subsequent (and in principle) more sophisticated analyses reached no consensus on a new higher or lower estimate. For the purposes of this study, the Cecchini 5% mid-point is retained. In the short run, industries that already have substantial cross-border trade may be the first to spot the new openings, because they are already aware of the opportunities and therefore conscious of current barriers as obstacles. Other industries, such as textiles and clothing, which the EU identified as integrated, in fact appear to have much progress still to make before their structure takes as much advantage of economies of scale as their United States counterparts. Industries with very little integration now may have much to gain, but may not achieve gains immediately. It was the services sector that was the slowest to perceive the SEM benefits, and to begin lobbying for them, because many firms had so little previous experience of cross-border supply.

104. The positive SEM effect on EU income will obviously have a positive impact on extra-EU imports. But that impact is likely to be smaller than implied by a normal aggregate marginal import coefficient, precisely because it comes from a particular internal efficiency diversion, to form a trend or an undifferentiated growth in output. The back-of-the-envelope calculation of the impact (using orders of magnitude derived from IMF simulations) is: 1% extra economic growth per year in the EU will increase its imports from industrial countries by 0.5% and from developing countries by 0.25%, the latter ranging from 0.4% for advanced NIEs to 0.2% for Africa or Latin America. For this reason, analyses of the SEM effects on developing countries must look closely at area- or sector-specific effects.

105. The EU is traditionally an importer of primary goods from developing countries and—unlike the United States—not of manufactured goods. Since the income and price elasticities of demand for primary goods are usually small, the magnitude of trade creation enjoyed by primary-goods-exporting countries to the EU is also small, but trade diversion to Community suppliers is unlikely since the EU member States are not major producers of primary goods. The income and price effects of trade creation for primary goods are normally small. For manufactures, trade creation effects can be larger, because income elasticities are higher, but these are also the goods for which trade diversion can be large. Some, such as textiles and clothing, are subject to special, non-competitive-market, regimes. It is also clearly the case that the effects will depend very much on the active response of the countries affected.

106. In calculating the impact of the SEM on trade creation for the ESCWA region, an income or GDP rate of increase of 5% in the EU is assumed. On that assumption, the ESCWA region[4] exports of primary

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[3] Much of the initial criticism rated the Cecchini estimates as far too high. However, Richard Baldwin's 1989 study concluded that the European Commission studies underestimated the medium-term investment effects and therefore the impact of the SEM on innovation and investment. He would also double the Cecchini effects on GDP growth and even argue that the long-run endogenous growth rate has been enhanced. (See R. Baldwin, "The growth effects of 1992", *Economic Policy* (Cambridge, United Kingdom, October 1989).

[4] The intention of this study was to provide an estimation of trade creation and trade diversion at three-digit level but the elasticity and the EU cost-reduction estimates are at best available at one- or two-digit level. Presenting tables at a three-digit level would give a false impression of precision and would result in lengthy tables with no additional information, as the same factor would simply be applied to all products within a category.

goods to the EU could increase by 6% or $1.2 billion (see table 13).[5] Clearly the overall effect depends on the income elasticity of demand for mineral fuels. On the basis of econometric studies, this is taken as 1.22 (i.e., an increase in the EU income by 1%, owing to the implementation of the SEM, would increase the EU imports of mineral fuels by 1.22%)—substantially higher than the income elasticities assumed for other primary products, which are between 0.5% and 0.7%.[6] The result is that those countries that would gain most from the SEM in exports of primary goods are those countries where mineral fuels constitute a major component of exports to the EU. Jordan, whose exports are dominated by ores, minerals and fertilizers, only experiences a rise in primary exports to the EU market of some 3%. 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 (for data used, periods covered and the methodology of the calculation see the annex to this chapter).

107. Table 14 gives estimates of trade creation for manufactures. The region's manufactures only account for about half the value of crude mineral fuels exported to the EU market, but the EU income elasticities of demand are higher, generally about 2 and 2.4 for machinery and transport. The developing countries' manufactures most likely to suffer from diversion (before allowing for specific trade policy changes) are the standardized goods available within the EU: textiles, clothing, footwear, leather goods electronic components, toys, steel, other metal products and chemicals. Overall, it is estimated that the ESCWA region's exports of manufactured goods 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 countries most likely to benefit are the United Arab Emirates and Egypt.

B. TRADE DIVERSION EFFECT

108. Improving EU competitiveness was to be achieved by reducing costs through the rationalization of production. The main sources of cost reductions would be economies of scale, reduction in X-inefficiencies and increased competition (and their various interactions). As a result, trade between EU member States would increase at the expense of imports from third countries. This is trade diversion. However the overall level of EU GDP would be boosted, with the result that both intra-EU and extra-EU imports would increase—which in the 1992 literature is called "trade creation".

109. The 1992 SEM programme aimed to eliminate three sorts of trade barriers:

- Customs procedures and other border checks which imposed direct costs on trade through delay at borders and other administrative costs;
- National norms and technical standards, which require producers to manufacture or package goods differently for different markets;
- Restrictions to market entry which inhibit competition and limit the exploitation of economies of scale. A particular form of this barrier is restrictions on who may tender for public procurement contracts.

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[5] The year on which the data on trade structure and directions and the calculations are based is 1989 for Iraq, Kuwait and Yemen; 1991 for the others.

[6] Michael Davenport with Sheila Page, *Europe: 1992 and the Developing World* (London, Overseas Development Institute, 1991).

110. In the original Cecchini studies,[7] the effects on the member States were estimated, sector by sector, in one of two ways. Either a partial equilibrium single industry, oligopoly model was used to simulate changes in firm behaviour within the EU, or a partial equilibrium, single product group, trade model was used to simulate changes in the pattern of intra- and extra-EU trade. Clearly the second methodology is more relevant to the analysis of trade with third countries. A general equilibrium approach which took account of interactions between demand in different sectors (income and substitution effects) and supply in different sectors (labour and capital market effects), and between aggregate demand and aggregate supply would be clearly preferable. However, such a model was not, and is still not, available, at least at the level of disaggregation that would permit studies of the impact of the SEM on particular countries with their own characteristic patterns of trade.

111. The Cecchini methodology was adapted to estimate the effects on the ESCWA region. In order to assess trade creation and diversion, partial equilibrium calculations were used—with all their limitations including lack of demand and supply interdependencies and no feedback through factor markets. Partial equilibrium analysis estimates the direct effect of a change in trade barriers on imports from alternative sources on the basis of assumptions about the elasticities of supply and demand. Estimates of trade barrier removal and other cost reductions associated with the SEM programme in the Commission studies were used.

112. In table 15 the percentage share of trade diverted from third countries is given. This is based on the reductions in EU costs associated with the 1992 programme and price elasticities of import demand and export supply. It measures the percentage reduction in extra-EU imports of that produce group. This loss is particularly high in product groups of importance to the ESCWA region's exports—chemicals and machinery and transport equipment. It is low where there are limited opportunities for economies of scale and other cost reductions through more trade and rationalization in the EU. This is particularly the case with oil refining. As a result the overall amount of diversion is high relative to the total manufactured exports of Jordan, Bahrain and Oman and low in the Syrian Arab Republic, Iraq, Kuwait and Yemen.

C. Terms of trade effects

113. There are two main sources of terms of trade effects. First, there are those increases in world prices, mainly of primary goods, which result from increased EU demand in response to the SEM-generated boost to growth in the EU. Secondly, there are those reductions in the prices of EU exports, mainly of manufactures, brought about by the SEM-generated improvements in productivity and competition. The former will benefit all primary producers, in and outside the SEM. The latter may damage producers outside, in their home or export markets, through increased competition, but will certainly benefit importers of non-competing manufactures who, like the primary exporters, will see their terms of trade with the EU improve.

114. 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 % of ESCWA member countries' imports of manufactured products from the EU; the gains are spread evenly throughout the member countries (table 16).

115. The effects of higher world prices for primary goods is even more limited. Prices are estimated to rise by relatively small amounts, 0.9% in the case of food and tobacco; this is small because of the

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[7] See also A. Smith and A. Venables, "The Costs of Non-Europe: an Assessment based on a Formal Model of Imperfect Competition and Economies of Scale", *Studies in the Economics of Integration*, Research on the Cost of non-Europe, Basic Findings, vol. 2 (Brussels, Commission of the European Communities, 1988); and R. Cawley, R. Davenport and M. Davenport, "Partial equilibrium Calculations of the Impact of Internal Market Barriers in the European Community", *Studies in the Economics of Integration*, Research on the Cost of non-Europe, Basic Findings, vol. 2 (Brussels, Commission of the European Communities, 1988).

assumption that the administered prices and subsidized exports associated with the CAP are not adjusted as part of the SEM. The rises for others are slightly better: 1.1% in agricultural raw materials and 3.4% in ores and metals (table 17). These are of course minor movements relative to year-to-year fluctuations in world commodity prices though, for completeness, they should be included in the analysis of the SEM. No attempt was made to calculate any price effect on fuels on the assumption that these prices are largely determined outside the European market. These price changes have a negative impact on the primary goods-importing countries: Iraq, Saudi Arabia, Kuwait, Bahrain, the United Arab Emirates and Egypt. The Syrian Arab Republic and Jordan, as net exporters of these goods, are net beneficiaries. The effects relative to total imports are very small, 0.2% or less except for Yemen and Egypt (with higher food imports).

116. Estimates of the effects of lower prices for ESCWA region exports of manufactures are not included. The world markets in manufactured goods are much less perfect, and so less predictable, than are those for primary goods, largely because of the heterogeneity of manufactures. There is of course substitutability but any effects on export earnings for ESCWA region manufactures—positive because of the increase in EU import demand or negative because of more aggressive competition from EU producers—are likely to be considerably smaller.

D. TOTAL DIRECT EFFECT

117. Lower EU manufactures prices and somewhat stronger world primary goods prices (excluding fuel) are respectively positive—just less than $0.4 billion—and negative—less than $0.2 billion—for the region. All in all, the total SEM effect is estimated at $1.4 billion or 1.2% of the region's total world 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% of total exports) and (potentially) Yemen (3.4% of total exports). 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.

118. The estimates of the various effects are contained in table 18. The dominant impact of the SEM on the ESCWA region will be through trade creation in primary goods and manufactures and, because of the importance of crude petroleum, primary goods are more important overall—though not in Lebanon, Jordan, Bahrain, Qatar, Oman and Egypt. Trade creation contributes nearly $1.75 billion to the region's export earnings. Trade diversion and trade creation in manufactures are roughly equal; however, for the region as a whole trade diversion is greater in a number of countries, in particular, Egypt, where manufactures consist largely of chemicals and machinery and transport equipment, and also Saudi Arabia. Very broadly, the positive impact of stronger EU demand—a $0.5 billion boost for the ESCWA region —is offset by the displacement of regional manufactured exports by intra-EU trade.

119. Compared with other areas, the ESCWA region has a high share of its exports to the EU and, with some members' high food imports, an important second round price effect from the SEM as well. The EU share for its exports of food products is particularly high. Oil is also the single commodity most affected by the SEM, even using calculations, as here, which assume that the increase in demand has no impact on price. This region (with the other oil producers) has the strongest positive effect from the SEM of any developing country grouping, and the fact that this is true even with large offsetting factors, from trade diversion and the cost of food imports, implies substantial structural changes. Within the ESCWA region, these effects are particularly large for some countries.

TABLE 13. ESCWA REGION: IMPACT OF THE SEM (TRADE CREATION), PRIMARY GOODS (IN THOUSANDS OF ECU AND MILLIONS OF US DOLLARS), BASED ON 1991 VALUES

SITC categories		Value of exports to the EU in the base year 1991 (ECU)	Income elast. of demand	Lebanon	Syrian Arab Republic	Iraq a/	Jordan	Saudi Arabia	Kuwait a/	Bahrain	Qatar	United Arab Emirates	Oman	Yemen a/	Egypt	Region
01-	Meat	2004	0.6	4	10	0	5	1	1	3	1	0	0	0	5	31
02-	Dairy	367	0.65	2	0	0	0	2	0	0	0	1	0	1	4	9
03-	Fish	34320	0.6	0	1	1	3	36	83	3	4	98	287	3	406	925
04-	Cereals	7697	-0.44	-2	0	-1	0	-121	-1	0	-1	-1	0	0	-43	-171
054, 056	Vegetables	79018	0.32	14	56	1	49	3	1	0	0	1	0	0	1131	1256
057, 058, 059	Fruit	13947	0.8	30	11	71	17	105	1	0	0	12	18	0	361	625
06-	Sugar, Honey	10214	0.65	20	0	0	0	1	1	0	0	1	0	0	310	334
07-	Coffee, Tea, Spices	2822	0.4	6	17	0	0	1	1	0	1	5	0	0	24	55
08-	Animal feed	7027	0.6	12	0	5	1	13	0	0	0	0	1	0	184	216
09-	Miscellaneous	707	0.6	6	0	0	0	2	3	0	2	1	0	0	9	24
11-	Beverages	2037	0.68	40	0	0	4	2	0	0	0	18	0	0	5	69
12-	Tobacco	5883	0.68	2	49	0	0	0	0	0	0	0	0	0	3	55
21-	Hides and Skins	20695	0.8	279	222	374	6	88	190	0	18	53	0	263	3	1495
22-	Oil seeds	3280	0.3	14	0	0	0	4	0	0	0	0	0	0	31	49
23-	Rubber	423	0.8	0	0	0	0	7	2	0	0	10	0	0	0	18
24-, 25-	Wood, Cork	385	0.8	0	0	0	0	10	0	1	0	2	0	0	3	24
26-	Textile fibers	92199	0.8	14	2901	222	3	87	134	0	1	1	0	5	649	4016
27-	Crude minerals and Fertilizers	49850	0.7	1	528	162	604	487	0	2	1	19	0	1	91	1897
28-	Metallic ores and Scrap	48735	0.7	326	2	21	212	457	299	8	0	205	14	4	466	2014
29-	Other animal, Vegetable products	38604	0.8	242	492	18	2	55	3	2	1	52	0	4	687	1558

TABLE 13. *(continued)*

SITC categories		Value of exports to the EU in the base year 1991 (ECU)	Income elast. of demand	Lebanon	Syrian Arab Republic	Iraq a/	Jordan	Saudi Arabia	Kuwait a/	Bahrain	Qatar	United Arab Emirates	Oman	Yemen a/	Egypt	Region
333	Crude petroleum	12863794	1.22	0	67588	172497	0	541269	92837	0	2627	70251	1028	28636	2266	978998
4--	Oil and Fats	135	0.6	3	0	0	0	0	2	0	1	1	0	0	2	9
	Total, ECU	13284143		**1014**	**71880**	**173370**	**907**	**542508**	**93558**	**20**	**2656**	**70729**	**1348**	**28916**	**6595**	**993508**
	US dollars	17.2		**1.3**	**89.2**	**215.1**	**1.1**	**673.1**	**116.1**	**0.0**	**3.3**	**87.8**	**1.7**	**35.9**	**8.2**	**1232.6**
	As a % of primary export to the EU			**3.6**	**5.9**	**5.3**	**3.3**	**6.1**	**6.1**	**6.0**	**6.0**	**6.1**	**4.9**	**6.1**	**3.3**	**6.0**

a/ 1989.

TABLE 14. ESCWA REGION: IMPACT OF THE SEM (TRADE CREATION) MANUFACTURES (IN THOUSANDS OF ECU AND MILLIONS OF US DOLLARS), BASED ON 1991 VALUES

SITC categories		Value of export to the EU in the base year 1991 (ECU)	Income elast. of demand	Lebanon	Syrian Arab Republic	Iraq a/	Jordan	Saudi Arabia	Kuwait a/	Bahrain	Qatar	United Arab Emirates	Oman	Yemen a/	Egypt	Region
334	Refined petroleum	1187776	1.22	11	5372	26201	0	44664	64148	772	704	1555	0	16	4220	147663
5	Chemicals	928704	182	150	33	1908	835	38143	650	692	191	322	81	12	2828	45845
65	Textiles	246495	1.82	350	957	55	15	156	32	18	24	1070	129	11	10596	13414
6 less 65	Manufactures classified by material other than textiles	854259	1.82	1603	192	247	339	6172	410	3706	37	4222	290	44	12769	30030
7	Machinery and transport equipment	1452232	2.41	1059	642	5153	2895	43526	7248	1478	8853	28215	3387	121	15810	118386
84	Clothing	284537	1.96	1722	2034	15	105	532	29	235	102	15236	388	2	7507	27906
85	Footwear	2881	1.96	46	20	1	38	8	4	1	2	57	0	0	110	286
8 less 84,85	Miscell. manufs. other than clothing and footwear	64446	1.96	879	143	348	1022	8158	1653	613	566	4711	1757	47	1776	21673
9	Goods n.e.s.*	311043	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total, ECU	5332373		**5818**	**9394**	**33928**	**5248**	**141358**	**74174**	**7515**	**10478**	**55387**	**6033**	**253**	**55615**	**405203**
	US dollars	6.9		**7.2**	**11.7**	**42.1**	**6.5**	**175.4**	**92.0**	**9.3**	**13.0**	**68.7**	**7.5**	**0.3**	**69.0**	**502.7**
	As a % of primary exports to the EU			**9.3**	**7.2**	**6.5**	**9.3**	**7.5**	**6.4**	**86**	**10.9**	**10.1**	**6.0**	**9.3**	**9.4**	

* Not elsewhere specified.

a/ 1989.

TABLE 15. ESCWA REGION: IMPACT OF THE SEM (TRADE DIVERSION) MANUFACTURES (IN THOUSANDS OF ECU AND MILLIONS OF US DOLLARS) BASED ON 1991 VALUES

SITC categories		% diversion	Lebanon	Syrian Arab Republic	Iraq a/	Jordan	Saudi Arabia	Kuwait a/	Bahrain	Qatar	United Arab Emirates	Oman	Yemen a/	Egypt	Region
334	Refined petroleum	4.4	8	3875	18899	0	32217	46271	557	6	1122	0	12	2199	105666
5	Chemicals	20.7	341	75	4340	1898	86764	1479	1574	434	733	185	28	2953	100804
65	Textiles	5.6	215	589	34	9	96	20	11	15	658	80	7	771	2505
6 less 65	Manufactures classified by material other than textiles	13.5	2378	285	366	503	9156	608	5498	55	6263	431	65	12312	37920
7	Machinery and transport equipment	13.4	1177	714	5730	3219	48402	8060	1643	9845	31376	3766	135	46765	160832
84	Clothing	5.6	984	1162	9	60	304	16	134	58	8706	222	1	9122	20778
85	Footwear	6.2	29	13	0	24	5	3	1	1	36	0	0	38	149
8 less 84,85	Miscell. manufs. other than clothing and footwear	7.7	691	113	274	803	6410	1299	482	444	3701	1381	37	6044	21678
9	Goods n.e.s.*	0.0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total, ECU		5823	6826	29653	6517	183354	57755	9900	10859	52595	6064	284	80203	450332
	US dollars		7.2	8.5	36.8	8.1	227.5	71.7	12.3	13.5	65.3	7.5	0.4	99.5	558.7
	As a % of primary exports to the EU		9.4	5.2	5.7	11.5	9.8	5.0	11.9	9.6	9.2	10.9	2.6	9.6	8.2

* Not elsewhere specified.

a/ 1989.

TABLE 16. ESCWA REGION: IMPACT OF THE SEM (EFFECTS OF LOWER EU EXPORTS PRICES) (IN THOUSANDS OF ECU AND MILLIONS OF US DOLLARS), BASED ON 1991 VALUES

SITC Rev.3		Change in price of EU expts. %	Lebanon	Syrian Arab Republic	Iraq a/	Jordan	Saudi Arabia	Kuwait a/	Bahrain	Qatar	United Arab Emirates	Oman	Yemen a/	Egypt	Region
11-,12-	Beverages, tobacco	1.3	513	22	229	174	1284	303	240	96	1375	258	192	325	5011
3--	Fuel products	0.3	188	132	26	19	141	19	4	5	166	57	14	200	971
4--	Oils and fats	1.2	191	53	24	78	292	88	13	8	130	16	34	212	1138
5--	Chemicals	1.9	3044	2915	6886	2164	23833	3679	1094	835	7557	1624	879	10532	65043
6--	Manufactures classified by material	1.2	3323	2373	9903	1252	18313	3786	1641	1001	7827	988	492	6802	57701
7--	Machinery and transport equipment	1.5	3984	3767	18766	2827	42776	8614	4787	6164	26130	4594	1852	20782	145041
8--	Miscell. manufs.	0.4	1133	215	819	229	4289	1150	267	324	2080	383	76	961	11927
9--	Goods n.e.s.*	1.1	216	291	682	234	22975	882	283	254	3187	1071	124	1133	31332
	Total, ECU		**12592**	**9768**	**37335**	**6976**	**113903**	**18522**	**8329**	**8688**	**48450**	**8992**	**3663**	**40948**	**318165**
	US dollars		**15.6**	**12.1**	**46.3**	**8.7**	**141.3**	**23.0**	**10.3**	**10.8**	**60.1**	**11.2**	**4.5**	**50.8**	**394.7**
	As a % of primary exports to the EU (1)		**1.1**	**1.3**	**1.4**	**1.4**	**1.3**	**1.2**	**1.3**	**1.3**	**1.3**	**1.3**	**1.4**	**1.4**	**1.3**

* Not elsewhere specified.

a/ 1989.

TABLE 17. THE ESCWA REGION: IMPACT OF THE SEM (EFFECTS OF HIGHER WORLD PRICES), BASED ON 1991 VALUES

(Millions of US dollars)

	Increase in world price	Bahrain	Kuwait a/	Oman	Qatar	Saudi Arabia	United Arab Emirates	Lebanon	Syrian Arab Republic	Iraq a/	Jordan	Yemen a/	Egypt	Region
Imports, 1991, $ million														
Food and tobacco		3269.0	1215.0	587.1	285.9	4034.6	1737.2	583.4	669.1	2440.2	742.1	673.6	2500.7	19097.9
Agric. raw materials		11.8	20.2	24.7	9.0	167.1	566.0	42.7	28.1	86.9	20.4	12.7	1376.5	2366.1
Ores and metals		100.0	120.0	21.3	45.0	700.0	206.0	60.0	33.0	80.0	70.5	15.0	290.7	1741.5
Exports, 1991, $ million														
Food and tobacco		6.4	66.1	141.2	7.3	469.1	438.6	134.7	469.1	96.2	189.7	57.2	261.2	2336.8
Agric. raw materials		0.5	16.9	0.2	0.9	12.4	9.6	5.4	214.4	24.2	11.4	17.4	117.3	430.6
Ores and metals		325.0	77.8	49.7	0.4	170.0	320.0	11.0	55.0	75.0	332.7	4.2	165.9	1586.7
World price effect, %s														
Food and tobacco	0.9	-32.6	-10.3	-4.0	-2.5	-32.1	-11.7	-4.0	-1.8	-21.1	-5.0	-5.5	-20.2	-149.0
Agric. raw materials	1.1	-0.1	0.0	-0.3	-0.1	-1.7	-6.1	-0.4	2.0	-0.7	-0.1	0.1	-13.9	-19.1
Ores and metals	3.4	7.7	-1.4	1.0	-1.5	-18.0	3.9	-1.7	0.7	-0.2	8.9	-0.4	-4.2	1.6
Total effect ($m)		-25.1	-11.8	-3.3	-4.1	-51.8	-13.9	-6.1	1.0	-22.0	3.8	-5.9	-38.2	-177.4
Total imports, $ million		4115.2	6295	3194	1720.1	29079	13746	3743	2694	9841	2507.8	2091	7861.8	76478
Effect on total imports %		-0.6	-0.2	-0.1	-0.2	-0.2	-0.1	-0.2	0.0	-0.2	0.2	-0.3	-0.5	-0.2

a/ 1989.

120. 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% 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.

121. Three types of countries can be distinguished in the ESCWA region in regard to the SEM. For some, the effect of the SEM is small, the EU is a relatively unimportant trade partner and changes affecting total world trade are not relevant to them. Bahrain, Oman, and Qatar are examples. In contrast, for Egypt, the apparent small net effect is the result of offsetting effects, each of which is potentially large.Trade with the EU is important: it is Egypt's largest trading partner. Given the uncertainties about the size of many of the individual effects, this means that the actual effect could prove larger than indicated here, and certainly the size of the effects on individual sectors within Egypt could be large. This could have major consequences on the structure of its trade. For the remaining countries, the effects on their total trade with the EU, although important, vary with the role of the EU in their economies.

122. Table 19 shows the varying importance of different EU countries to the ESCWA region. This chapter has not attempted to differentiate among them, but if there are significant differences in the performance of the EU members, the impact on individual ESCWA members will vary. For the region as a whole, France, Italy and the Netherlands are the major markets. This is unusual: for most developing country regions, it is now Germany which is important, taking roughly a quarter of their exports to the EU, with France and the United Kingdom of Great Britain and Northern Ireland taking about a sixth each, and Italy slightly less. The effects of the SEM could therefore vary from the average. For individual countries, the pattern varies widely, and for the oil producers is probably subject to the normal high degree of uncertainty because of the relative importance of centralized marketing and transshipment. To translate the general results of this chapter into specific effects on the trade of individual countries and suppliers requires examination on a more disaggregated level by product, type of change and market.

123. If the higher estimates for the output effect of the SEM were used, trade diversion would be even greater, sharpening the contrast between the impact on manufactures- and primary-dependent areas and countries. These estimates might also point to a stronger price effect (improving the terms-of-trade gain), but if this effect were very large, the effects of competition in third country markets (cheaper EU exports damaging developing country exports in non-EU countries) could not be ignored, and the very simple partial effects calculated here would cease to hold. Strong dynamic SEM effects (the Baldwin argument)[8] would also suggest large changes in the industrial structure of the EU, and therefore in the composition of its imports, which would further invalidate the assumptions used. It is therefore best to consider the results indicated as first-round effects, with the length of that round rather indeterminate. It is probable that a large proportion of the effects have already been anticipated, and can be seen in the recent high investment and import performance of the EU. The more long-term effects depend too much on the dynamic structural

[8] Baldwin, op. cit.

TABLE 18. ESCWA REGION: IMPACT OF THE SEM (SUMMARY OF TRADE CREATION, DIVERSION AND TERMS-OF-TRADE EFFECT) (IN MILLIONS OF US DOLLARS), BASED ON 1991 VALUES

	Bahrain	Kuwait a/	Oman	Qatar	Saudi Arabia	United Arab Emirates	Iraq a/	Egypt	Jordan	Lebanon	Syrian Arab Republic	Yemen a/	Total
Trade creation, primary products	0.0	116.7	1.7	3.3	673.1	87.8	215.1	8.2	1.1	1.3	89.2	35.9	1232.7
Trade creation, manufactures	9.3	92.0	7.5	13.0	175.4	68.7	42.1	69.0	6.5	7.2	11.7	0.3	502.6
Trade diversion, manufactures	-12.3	-71.7	-7.5	-13.5	-227.5	-65.3	-36.8	-99.5	-8.1	-7.2	-8.5	-0.4	-558.3
Lower EU exports prices for manufactures	10.3	23.0	11.2	10.8	141.3	60.1	46.3	50.8	8.7	15.6	12.1	4.5	394.7
Higher world prices, primary products	-25.1	-11.8	-3.3	-4.1	-51.8	-13.9	-22.0	-38.2	3.8	-6.1	1.0	-5.9	-177.4
Total SEM effects	**-17.9**	**147.6**	**9.5**	**9.5**	**710.5**	**137.4**	**244.7**	**-9.7**	**12.0**	**10.7**	**105.5**	**34.5**	**1394.3**
Total exports to EU	136.1	2601	151	76.2	9113	2061	3337	1560.4	52.4	111.5	1642.1	578	21293
Total exports	3513	11069	4871	3180	44062	24650	12284	3659	1161	547	3432	1000	113428
SEM effects as % of exports to EU	-13.2	5.7	6.3	12.5	7.8	6.7	7.3	-0.6	23.1	9.6	6.4	7.6	6.5
Exports to EU as % of total	3.9	23.5	3.1	2.4	20.7	8.4	27.2	42.6	4.5	20.5	47.8	45.2	18.8
SEM effects as % of exports	-0.5	1.3	0.2	0.3	1.6	0.6	2.0	-0.3	1.0	2.0	3.1	3.5	1.2

Source: IMF, *Direction of Trade* and results of computations in tables 13 to 17 above.

a/ 1989.

changes within the EU, and on the interaction of the SEM with all the other factors affecting the changing industrial structure of the EU countries' complex economies for it to be possible to estimate aggregate or sectoral SEM effects with greater precision.

TABLE 19. SHARES OF MAJOR EU COUNTRIES IN TOTAL EXPORTS TO ESCWA MEMBER COUNTRIES, 1991

(*Percentages*)

	Bahrain	Kuwait a/	Oman	Qatar	Saudi Arabia	United Arab Emirates	Iraq a/	Egypt	Jordan	Lebanon	Syrian Arab Repubic	Yemen a/	Total
France	11.6	5.8	11.1	34.1	21.3	21.9	22.8	13.9	31.0	26.0	37.0	9.4	20.0
Germany	9.7	5.5	4.6	17.6	3.0	8.5	4.1	8.8	14.4	12.1	6.2	62.9	6.1
Italy	12.8	17.8	2.1	33.8	20.2	12.6	18.4	34.8	11.5	25.1	46.8	26.9	22.0
Netherlands	1.8	39.8	1.5	1.4	29.8	8.3	17.9	9.0	19.2	5.4	3.3	0.0	22.2
UK	46.2	8.6	78.1	11.6	9.9	18.0	2.5	5.1	9.8	12.1	4.0	0.5	9.1

Source: IMF, *Direction of Trade*.

a/ 1989.

E. DYNAMIC CHANGES IN EXPORT STRUCTURE

124. This exercise has used a "snapshot" of the trade structure of the region in 1991—or 1989 in the cases of Iraq, Kuwait and Yemen. But the structure of trade evolves over time in response to national changes and to other international trade policy reforms. In addition, the effects of the SEM programme will be experienced by both EU members and third countries over a period of time. This started in the late 1980s as firms adjusted their investment plans to be prepared to exploit the more open borders within the EU, and certainly was not fully achieved by January 1993. Even at the EU administrative level there is unfinished SEM business—not least in the important area of the harmonization of indirect taxes.

125. Clearly it is important how trade creation and trade diversion alter the adjustment process through which countries adapt to changes in their perceived comparative advantages. It would be more serious if trade diversion undermined what was expected to develop into a leading export sector that if it merely administered the final blow to a sector that was understood to be on its way out—even if, in 1991, they both sectors made equal contributions to national exports. This is particularly the case if the former sector (expected to become a leading export sector) had been privileged to handle a major share of the country's investment. To investigate these issues properly would require a detailed examination of output and investment patterns over several years.

126. Nevertheless, it is still valuable to look at some broad indicators of structural change and to speculate how the SEM programme could distort the picture. Table 20 looks at growth rates of exports by broad SITC

groupings. Growth in exports of chemicals and machinery and transport equipment has been above average throughout the ESCWA region. Yet these are the two sectors that were most damaged by trade diversion. The same is true to a lesser extent of other 'miscellaneous' manufactures. The importance of diversifying out of crude petroleum towards higher value-added products is generally accepted, but clearly the SEM programme is not going to facilitate that process. There will be a tendency for EU self-sufficiency in chemicals and manufactures to grow.

127. One general result is clear and important. The bias towards favouring primary trade, which is found at both the aggregate and special product level, is significant because it suggests that the SEM will reinforce a difference that already exists between EU-developing country trade and United States-developing country trade—the greater share of primary products in EU trade—and because it goes against many developing countries' own preferences or strategies for reducing dependence on primary exports. The EU has a lower share of the market for developing-country manufactured exports than for their exports as a whole, while the United States share is much higher. Japan also has a more primary-product based trade with developing countries, but this pattern is consistent with Japan's general dependence on primary imports. The EU pattern, in contrast, is not simply the result of its overall composition of trade. There is thus a strong risk that the SEM will prolong the old-fashioned pattern of trade of the EU with developing countries.

128. The calculations provided above give the quantitative effects of the measures that are reviewed here. The effects of an increase in income and change in relative demand for different products by one trading partner from another (here, by the EU from the ESCWA region) can be calculated, with only the usual uncertainties attaching to the assumptions about elasticities and other influences. But the size and distribution of the increase in income itself which results from the type of measures reviewed in this chapter is much more uncertain. These changes were taken from the EU estimates. Many of the individual items that have important effects and that may be large in scale for individual countries are not susceptible to models based on average relationships; in particular, goods that are becoming more important, or that are favoured by policy, cannot be distinguished in a snapshot view of current export structure from those whose importance is diminishing. This is true of all trade-policy measurements. But for the SEM there is a second, much more general, problem. It is that exercises in removing this type of internal barrier are much less common than price or tariff changes, so that there is little past experience or guidance on the basis of which to model the expected effects. They may be greater than what past experience with simple trade policy changes would suggest, because the changes fundamentally and permanently alter the ways in which markets operate, but they may take longer to appear.

129. Calculations of the price effects are based on the Cecchini Report estimates of "market integration" effects, including those under the various technical, standard-harmonization, and service-integration effects. The size of these effects may well be underestimated. Assumptions are needed about how important non-cost obstacles are in cost terms, and to what types of trader they are important. Difficulties also stem from the fact that some final decisions have not yet been made. It is also difficult to know how to convert them into the export prices relevant to the calculations, given the various competitive and regulatory structures of the different markets.

TABLE 20. ESCWA REGION: GROWTH RATES OF EXPORTS BY ONE-DIGIT SITC CATEGORIES (1980-1991)*

(Percentages)

	Lebanon		Syrian Arab Republic		Iraq		Jordan		Arabia		Kuwait		Bahrain		Qatar		United Arab Emirates		Oman		Yemen		Egypt		Region	
	share	gr.	share	gr.	share	gr.	share	gr.	share	gr.	share	gr.	share	gr.	share	gr.	share	gr.	share	gr.	share	gr.	share	gr.	share	gr.
Food	3.8	1.6	0.4	5.9	0.1	-12.1	4.6	38.3	0.1	23.2	0.1	39.7	0.3	16.5	0.2	22.3	0.2	39.1	7.9	46.9	0.0	17.2	14.1	5.4	0.7	6.6
Beverages tobacco	1.4	3.1	0.1	26.3	0.3		0.1		0.0	11.0	0.0		0.0	-7.4	0.0		0.0	11.6	0.0		0.0		0.0		0.1	23.7
Crude mats.	26.1	3.2	7.8	10.7	0.6	13.5	28.0	11.5	0.3	15.2	0.6	13.9	0.4	-0.6	0.4	-5.1	0.5	-6.8	0.3	55.7	1.4	9.5	6.4	-5.0	1.3	3.9
Mineral fuels	0.2	33.9	88.5	2.8	96.4	-9.3	0.0		89.4	8.3	95.1	-4.5	19.1	-4.9	39.0	-25.8	69.2	-10.3	13.2	-23.3	98.0	91.4	13.9	0.9	85.2	-1.7
Oils, fats	0.1	1.7	0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0	-1.9	0.0	2.1
Chemicals	1.8	9.5	0.0	1.3	0.6	60.8	10.9	40.7	3.8	85.5	0.3	8.9	8.1	25.0	1.5	-1.2	0.2	5.3	0.7	39.5	0.0	25.4	3.9	16.9	2.3	36.9
Manufs. classified by material	23.7	8.3	0.9	11.6	0.1	14.8	4.6	23.0	0.6	19.5	0.2	11.7	43.8	21.6	0.5	8.2	3.3	-11.3	3.6	28.2	0.1	54.4	32.2	13.0	2.4	4.9
Mach. and trnsp. eqpt.	9.7	12.9	0.4	11.3	1.3	20.0	28.6	13.2	3.2	9.9	2.2	25.2	13.1	3.7	52.5	28.6	13.4	29.9	22.1	8.7	0.2	12.6	16.4	21.7	4.2	14.7
Miscell. manufs.	29.8	10.0	1.7	20.7	0.1	14.3	14.1	18.2	0.8	15.8	0.6	15.1	9.3	2.9	4.9	20.4	11.7	37.5	17.2	8.5	0.1	10.3	12.0	18.5		
Goods n.e.s.**	3.5	12.6	0.2	2.6	0.5	12.7	8.9	4.4	1.8	-0.9	0.8	-15.3	5.9	13.5	0.9	-5.8	1.4	-13.7	34.9	7.7	0.0	-20.7	1.0	-12.7	1.5	-3.8
Total	100.0	7.1	100.0	3.5	100.0	-9.0	100.0	13.7	100.0	8.5	100.0	-4.3	100.0	5.4	100.0	-19.3	100.0	-8.0	100.0	-8.8	100.0	60.9	100.0	6.7	100.0	-0.8

Note: Blank entries indicate an insignificant level of exports in the base and/or the terminal.

* Except for Iraq, Kuwait and Yemen in 1980-1989.

** Not elsewhere specified.

TABLE 21. INVESTMENT FLOWS INTO THE ESCWA REGION

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates	Iraq	Egypt	Jordan	Lebanon	Syrian Arab Republic	Yemen	Total	All developing
Investment ($ million)														
1989	297	3	4	-2	-20	39	0	1250	70	2	74	14	1731	
1992	553	8	-35	5	385	122	8	459	107	19	18	12	1661	
DFI/total investment (percentages)														
1986-90	6.9	n.a.	7	-0.5	0.9	1	n.a.	5.4	2	1.4	2.1	1.2	0.5[a]	2.7
1992	n.a.	-0.5	3	n.a.	1.4	1.5	n.a.	5.3	2.8	n.a.	2	n.a.	0.3[a]	7.8

Source: *World Investment Report: Transnational Corporations, Employment and the Workplace* (Geneva, UNCTAD, 1994).

a/ Including the Islamic Republic of Iran and Cyprus; excluding Egypt.

130. On the income side, the effects on the EU countries come from the reduction in these internal costs. Therefore, it is unlikely that the distribution of spending out of the resulting increased income will be the same as in the case of a conventional change in income because spending is likely to be preferentially directed to the goods which now cost less, i.e. to internal goods from other members, not to home-produced goods or to goods imported from outside the EU. Finally, these estimates cannot make allowance for the potential direct costs to suppliers of harmonization which may partially offset the gains from higher income. As these are in the main fixed costs of compliance, rather than a percentage addition to the cost of producing the goods, they can only be indicated.

Annex to chapter III

Data: The basic data were extracted from the COMEXT data bank and supplied on diskette by the EU Commission. Data on ESCWA member countries' foreign trade in primary products were taken from the UNCTAD **Commodity Handbook**, 1993. Figures for global trade of the ESCWA member States were taken from the IMF **Direction of Trade Yearbook**, 1994.

Periods: In general, 1991 was taken as the base year. It was inevitably a compromise between using data for a year prior to any significant 1992 effects (which may have begun as early as 1986) and at the same time preserving a certain timeliness and relevance to current problems. For Iraq and Kuwait, 1991 (and 1990) data are severely distorted by the Gulf war, so 1989 was taken as the base year. In the case of the Yemen Arab Republic, 1989 was also taken as the base year since global trade data are not available for 1991 and the 1991 EU-Yemen trade flow data are distorted by the union with Democratic Yemen. There was no hesitation in aggregating 1989 and 1992 figures to give regional totals—or in converting 1989 ECU into dollars at the 1991 average exchange rate ($1.2405 per ECU)—since, in the case of Iraq and Kuwait, the 1989 data were taken as estimates of what the 1991 data would have been in happier circumstances.

Methodology

Trade creation: as suggested in the text, there has been some controversy concerning the impact of the 1992 programme on Community GDP. The Cecchini Report suggested a range of 4.25% to 6.5%. On the basis of the detailed results of the background studies, that was narrowed down to a single estimate of 5%. Income—and other—elasticities were drawn from a number of sources.[a/] Since that book was published there has been little new literature on elasticity estimates and it was decided to stay with those used earlier. The earlier elasticities were realigned to the SITC Revision 3, three-digit classification used in chapter III. When an estimate was not available, the elasticity appropriate to the next higher level of aggregation was used. When more than one estimate was available, the median was used. CAP goods were excluded from the analysis.[b/]

Thus $TC_{ij} = g/100 * e_j * X_{ij}$

Where:

$TC_{ij}$is the expansion (in dollars) of exports of commodity (j) from country (i) to the EU;
gis the assumed SEM-generated growth in EU GDP (5%);
$e_j$is the income elasticity of demand for commodity (j) in the EU; and
$x_{ij}$is the dollar value of exports of commodity (j) by country (i) in the base period.

Trade diversion: Data on SEM-related cost reductions were taken from the Cecchini background studies.[c/] The only significant departure is the inclusion of an estimate of diversion in petroleum products - obviously

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a/ Michael Davenport with Sheila Page, *Europe: 1992 and the Developing World* (London, Overseas Development Institute 1991).

b/ Ibid., p. 114.

c/ For additional details, see Davenport and Page, op. cit.

important for the ESCWA member States. The percentage diversion of trade assumed for chemicals and machinery and transport is 5; for the others 2. It was assumed that the 1992 programme would not bring any new "dynamic" effects to reduce prices in this sector through economies of scale, X-inefficiency reductions or enhanced competition. This sector is already dominated by highly competitive transnational corporations (TNCs). The diversion effect is then generated purely by reduction in administrative and other costs associated with open borders within the European Union.

Thus $TD_{ij} = c_{ij} * X_{ij}$

where c_{ij} is the percentage diversion of trade for commodity (j) of country (i); and
$c_j = s_j + d_j$

where s and d are static trade diversion and dynamic trade diversion coefficients for commodity (j), respectively. Estimates of (s_j) are taken from Cawley and Davenport (1988) and of (d_j) from Smith and Venables (1988) respectively.

Terms of trade effects: For price rises in world markets for primary products, the same income elasticities were used. Prices of products with CAP variable levies were assumed not to react to increased EU demand. In each case the increase in world demand was given by the product of the EU share in world imports, the assumed 5% rise in EU GDP and the import elasticity of demand. The increase in world prices was then estimated as the percentage increase in world demand divided by the sum of the absolute values of the price elasticities of import demand and export supply for each primary product class. The reductions in the prices of EU exports of manufactures were based of the calculations by two—digit manufacturing group in Cawley and Davenport (1988). Again the methodology closely follows Davenport and Page (1991).

The change in the values of **exports** is given as: $\Sigma_i \Sigma_j p_j X_{ij}$
where X_{ij} are exports of commodity (j) by country (i)

The change in the values of **imports** is given by: $\Sigma_i \Sigma_j p_j M_{ij}$
where M_{ij} are imports of commodity (j) by country (i).

The price increases are given as: $p_j = s_{EUj} * g * e_{Mj} / (e_{Sj} + |e_{Mj}|)$
where

s_{EUj} is the share of the EU in world imports of commodity (j),
e_{Mj} is an estimate of the EU elasticity of **imports** demand for commodity (j),
e_{Sj} is an estimate of the world elasticity of **export** supply of commodity (j); and
$|e_{Mj}|$ is the absolute value of e_{Mj}.

IV. PREFERENTIAL/RESTRICTIVE MEASURES IN THE EU-ESCWA TRADE RELATIONS

131. The EU move towards a more regional approach to international negotiation raises the question of whether the SEM will have the effect of encouraging a more general international move in this direction. The negotiating need to counter a stronger trading partner is one force. But the reductions in general international tariffs and increases in the trade-related areas now covered by multilateral arrangements reduce the incentive to obtain the internal advantages of a regional trading group. Although there has been a proliferation of new regional groups in Latin America, and on a smaller scale in Africa, the most successful developing countries, in Asia, have continued to show little interest (except for external bargaining).

A. THE LEGAL FRAMEWORK OF EU-ESCWA TRADE RELATIONS

132. 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. The cooperation agreement with the GCC has no tariff concessions while the bilateral ones include such concessions.

1. The cooperation agreement between the EU and the GCC countries

133. The cooperation agreement between the EU and the GCC countries was concluded on 20 February 1989. The contracting parties agreed that the main objectives of the agreement were to broaden and consolidate their economic and technical cooperation relations and also cooperation in energy, industry, trade and services, agriculture, fisheries, investments, science, technology and environment, on mutually advantageous terms, taking into account the differences in their levels of development. Therefore, the two parties in the light of their mutual interests and in accordance with their long-term economic objectives undertook to establish, within the limits of their competence, the broadest possible economic cooperation from which no field would be excluded in advance. The agreement was merely a cooperative one between equal partners in which no trade concessions or technical or financial assistance was mentioned.

134. The European tariffs on different petrochemical products range between 7% and 15%. Europe intends to maintain this range in the short and medium terms until it completes rationalization of this industry during the coming 12 years. Europe has now a big surplus in petrochemicals but is expected to be a net importer in the long run. Currently, there is an EU/GCC Energy Committee which meets regularly to discuss related issues and has agreed to subject petrochemical products from the GCC to this range of tariffs. But since petrochemicals are covered by GATT principles, any member of GATT should be able to export petrochemicals to Europe at reduced or zero tariff.

2. The cooperation agreements with other ESCWA member countries

135. As part of its Mediterranean policy, the European Union signed, during the 1970s, a series of bilateral cooperation agreements on the basis of article 238 of the Treaty of Rome with a number of Mediterranean countries, namely Algeria, Morocco and Tunisia in North Africa; and Egypt, Jordan, the Syrian Arab

Republic and Lebanon in the ESCWA region.[1] Although Yemen is not geographically a Mediterranean country, the EU agreement with it is also considered as part of its Mediterranean policy. Yet the agreement has not been supported by a protocol as it is the case with other Mediterranean countries; consequently, it has been implemented only upon request submitted by Yemen. According to these agreements, the fields of cooperation between the EU and the concerned country, cover economic, technical, financial and trade areas. The text and terms of these agreements are similar in substance; the differences mainly concern the extent of the trade concessions, especially with regard to agricultural products. In practice, the trade concessions on agricultural products reflect the respective products of export interest to each country concerned. Since their entry into force, the agreements have been subject to various amendments and updating. The trade concessions provided by all the EU cooperation agreements with developing countries may hardly be considered reciprocal. The reciprocal aspect contained in the agreements is limited to the obligation to grant most favoured nation (MFN) status to the European Union and on the understanding not to discriminate between European Union member States. Invariably all the agreements contain in their article I the objective of the agreement itself, which is: "to promote overall cooperation between the contracting parties with a view to contributing to the economic and social development of (country concerned) and helping to strengthen relations between the parties. To this end provisions and measures will be adopted and implemented in the field of economic, technical and financial cooperation and of trade".[2]

136. Title I of an agreement is usually reserved for economic, technical and financial cooperation, which defines in very broad lines the possible areas of cooperation between the contracting parties. Title II is reserved for the trade cooperation aspect of the agreement and contains the trade concessions granted by the two contracting parties.

137. The general skeleton of the trade concession is basically the same for all Mediterranean countries concerned. Briefly it can be summarized as follows:

(a) Customs duties on industrial products were phased out one year after the signature of the agreements.

(b) All quantitative restrictions were abolished at the same time except for products listed in annex II to the Treaty of Rome.[3]

(c) Selected agricultural products were subject to tariff concessions according to a positive list.

138. The key provision concerning the trade concessions granted by the European Union in the original agreement was contained in an article in title I which, although worded differently depending on the Mediterranean country concerned, was identical in its content and extent of the trade concession. For the "Mashreq countries" (Jordan, Lebanon and the Syrian Arab Republic) the provisions concerning the trade concessions granted by the EU were contained in the following provisions :

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[1] The agreements with Egypt, Jordan and the Syrian Arab Republic were concluded on 18 January 1977 while the agreement with Lebanon was concluded on 16 February 1977.

[2] S. Inama, "The European Union/Jordan Cooperation Agreement and Future Prospects", a paper submitted to the National Seminar on the Generalized System of Preferences and other trade laws for Jordan, Amman, 22-24 January 1995, p. 3.

[3] Annex II to the Treaty of Rome, which established the European Communities in 1957, is contained in the annex to this chapter.

1. "Subject to the provisions of Articles 13, 14 and 16, customs duties and charges having equivalent effect on imports into the community of products originating in (country concerned) other than those listed in Annex II to the Treaty establishing the EU, and other than those listed in Annex A, shall be abolished in accordance with the following timetable: 80% on the date of the entry into force of the Agreement; and 100% from 1 July 1977.

2. "Quantitative restrictions on imports and measures having an effect equivalent to quantitative restrictions on imports into the community of products originating in (country concerned) other than those listed in Annex II to the Treaty establishing the EU shall be abolished on the date of the entry into force of the Agreement.[4]

139. Since annex II to the Treaty of Rome containing the list of products excluded from the scope of the agreement covered the majority of agricultural products, specific concessions were granted for selected products in the form of a list which singled out products which, although contained in annex II, were subject to specific concessions. The products and the concessions change according to the Mediterranean country concerned, its supply capability and the products traditionally exported to the European market. Sometimes their duty reductions are submitted to reference quantities. According to the agreements, Mediterranean contracting parties are also entitled to introduce new customs duties, taxes having an effect equivalent to custom duties or quantitative restrictions where such measures are necessitated by development of local industries or development issues in general. Another article in the agreement provides that quantitative restrictions, if any, may be enacted by Mediterranean contracting parties only towards the whole of the European Union and not against single member States. The contracting parties also undertake to grant each other a "national treatment clause" modelled along article III of the GATT.

140. Exceptions to the general prohibition or restrictions of imports are allowed on both sides when justified on grounds of public morality, public policy or public security; the protection of the health and life of humans, animals or plants; the protection of national treasures of artistic, historical or archaeological value; the protection of industrial and commercial property, or rules relating to gold or silver. Such prohibitions or restrictions must not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between the contracting parties.

141. Rules on dumping and safeguard measures are also contained in the "common provisions". Anti-dumping actions are regulated through a reference to article VI of the GATT and are subject to *a priori* information. Safeguard measures are modelled according to article XIX of the GATT but are subject to a prior consultation procedure. Such consultation procedures are dealt with in the framework of the Cooperation Council, which is usually established under title IV of the agreements. It is a body designed to take decisions and a privileged forum for discussing matters related to the implementation of the agreements. The unanimous decisions of the Cooperation Council are binding on the contracting parties. The Council is normally composed of representatives of the Commission and the Mediterranean country concerned. The office of the president is held on a rotating basis.

142. The agreements contain additional protocols on rules of origin applicable to trade between the contracting parties and a protocol on technical and financial cooperation which contains guidelines and

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[4] Inama, op. cit., p. 4.

specific provisions for the implementation of technical assistance projects and allocation of loans by the European Union. The content and terms of the protocols on rules of origin are substantially identical for all Mediterranean countries except for the regional accumulation provision granted to Maghreb countries. After the entry into force in 1988 of the Harmonized System, the original protocols previously based on the Customs Cooperation Council nomenclature were updated and are now based on the Harmonized System.

B. MAJOR COMMON AMENDMENTS TO THE MEDITERRANEAN AGREEMENTS (1978-1994)

143. The contents of the trade concessions were implemented by the European Union through ad hoc regulations concerning, in particular, agricultural products. Each year the community opened tariff quotas or reference quantities for agricultural products which were granted specific concessions under the original agreements. Other regulations concerned the marketing of specific agricultural products which needed special legislation including reference prices for wine, olive oil and rice. Additional protocols were also signed between the Community and each individual Mediterranean country to deal with specific issues which might have arisen during the implementation of the agreement. However, the enlargement of the Community owing to the accession of Spain and Portugal, potentially producers of agricultural products competitive against products from the Mediterranean countries, entailed a first amendment to the original agreements through the inclusion of an additional protocol.[5]

144. The aim of this additional protocol was to put Mediterranean countries on an equal footing with or at least compensate them for the accession of Spain and Portugal. Each protocol provided that, for certain agricultural products of export interest to the individual Mediterranean country, the remaining customs duties already reduced by the original agreements were phased out over the same periods and at the same rates as provided for in the Act of Accession to the Community of Spain and Portugal. The concessions mainly concerned the same list of agricultural products that was contained in the original agreements, further reducing the remaining applicable customs duties. Additional products from certain Mediterranean countries were granted tariff reductions according to the timetable of the original agreement. For some agricultural products these concessions were limited by ceilings and reference quantities. A second amendment common to all agreements was unilaterally adopted by the European Union through Council regulation No. 17611/92 amending the arrangements for the import into the Community of certain agricultural products originating in some Mediterranean countries, among them Egypt, Jordan, Lebanon and the Syrian Arab Republic. The regulation was the result of a Council and Commission resolution on trade with Mediterranean countries adopted on 18 and 19 December 1990. In the general context of a new Mediterranean policy, it aimed to strengthen the links and increase cooperation with the countries of the region through the promotion of agricultural exports.

145. The regulation provided that, for products listed in annex II to the Treaty, the remaining customs duties applicable to Mediterranean countries were to be phased out in two stages from 1 January 1992 and 1 January 1993. This concession applies in the framework of the marketing timetable, ceilings or reference quantities and products laid down in the original agreements and additional protocols. However, according to article 2 of the regulations, the reference quantities and tariff quotas are increased in four equal stages of 5% each year from 1992 to 1995 within the limits of the original timetables. For certain specific products, the increase was limited to 3% each year.

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[5] EU *Official Newspaper (1987) O.J.L 297*, 21 October 1987.

C. THE NEW EUROPEAN UNION MEDITERRANEAN POLICY

146. The conclusion of the European Council meeting in Essen (Germany) on 9 and 10 December 1994 outlined the new European Union policy towards the Mediterranean countries.[6] This partnership may be summarized as developing along three main streams:

(a) Negotiations of free trade area agreements of a reciprocal nature with Mediterranean countries in most manufactured goods, the granting of preferential and reciprocal access for agricultural products, and the establishment of conditions for gradual liberalization of trade in services and capital;

(b) The creation of a Mediterranean free trade area and encouragement of the economic integration of Mediterranean countries;

(c) Substantial financial assistance to support the necessary adjustments (estimated at ECU 5.5 billion).

147. The goals and constraints imposed by Mediterranean countries are perhaps best stated in the EU Commission's request for negotiating authority[7] "in order to be able to enter progressively into free trade with the Union and to take on board a wide range of trade-related community regulations (customs, standards, competition, intellectual property protection, liberalization of services, free capital movements, etc.) ... Mediterranean countries insist on four fundamental aspects:

(a) The need for long transitional mechanisms and secure safeguards;
(b) The need to obtain improved access for their agricultural exports;
(c) The need for increased financial flows; and
(d) The possibility to count on the Community's help to accelerate the modernization of their social and economic systems."[8]

148. The first new partnership agreement, negotiated with Tunisia, was signed in May 1995; negotiations are well under way with some other Mediterranean countries such as Morocco and Egypt. Recently the Commission of the EU, the executive body, obtained a mandate to negotiate with Egypt an expanded agreement to replace the cooperation agreement concluded in 1977. This new agreement is designed to cover areas besides trade in goods including economic and social cooperation. Jordan is currently evaluating the

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[6] The political and economic attention of the European Union, mainly devoted in the last few years to supporting the changes in Eastern European countries, is now concentrating on a new strategy and model for partnership with the Mediterranean countries. Some observers, however, believe that after the conclusion of the Uruguay Round and the liberalization of world trade under the umbrella of the World Trade Organization, such a regional arrangement would not have any significant impact on creating new trade opportunities for Mediterranean countries with the EU. Therefore, the initiative, mainly a political one, aims to counteract fundamentalist movements in the area and restrict illegal labour migration from North Africa to Europe. This will be achieved through encouraging economic development in the Mediterranean region by helping Governments to implement structural economic reforms. The pace of the reforms undertaken by these countries has been characterized as being slow and less than comprehensive; if this situation continues the gap between these countries' performance and that of the rest of the world is likely to become larger.

[7] "Strengthening the Mediterranean policy of the European Union: establishing a Euro-Mediterranean partnership," communication from the European Commission to the Council and the Parliament, October 1994.

[8] B. Hoekman and S. Djankov, "Catching up with Eastern Europe? the European Union's Mediterranean free trade initiative", Economic Research Forum, Conference on Liberalization of Trade and Foreign Investment, Istanbul, Turkey, 16-18 September 1995.

new European Union partnership proposals. On the Syrian side, the Cooperation Council, which is a joint body established under the 1977 cooperation agreement between the European Union and the Syrian Arab Republic, met for the first time in November 1994 to discuss bilateral relations. The final communiqué of the Council expresses the interest of the EU in the participation of the Syrian Arab Republic in the Euro-Mediterranean conference (held in Barcelona, Spain, in November 1995) to discuss the ways and means to develop new partnerships and directives in the Euro-Mediterranean dialogue.

D. MAIN FEATURES OF THE EU PARTNERSHIP AGREEMENT WITH TUNISIA

149. Since the partnership agreement with Tunisia is likely to be a model for the other agreements that are still being negotiated with other countries in the region, its main features deserve a brief review. The partnership agreement with Tunisia is unlimited in duration and to be implemented over a 12 year period. There are six elements in it: (a) political dialogue; (b) free movement of goods; (c) right of establishment and supply of services; (d) payments, capital, competition and other economic provisions (e.g., safeguards); (e) economic, social and cultural cooperation; and (f) financial cooperation.

Free movement of goods. Little will change as far as agricultural trade is concerned. The objective of the agreement is to lock in the status quo, and improve on existing agricultural concessions after 1 January 2000. Tunisia already has duty-free access to EU markets for manufactured goods under previous arrangements with the EU. Quotas are to be abolished upon the entry into force of the agreement, except as allowed by GATT rules. In contrast to the EU agreements with CEECs, no special treatment was given to Tunisia as regards more rapid elimination of textile quotas than agreed under the GATT. Tunisia committed itself to gradually reducing tariffs on industrial products of EU origin to zero. Four lists of products have been defined in this connection and tariffs for any manufactured product not mentioned in one of these lists must be abolished upon the entry into force of the agreement (which depends upon the ratification of the agreement by the 15 EU member States). The approach taken by Tunisia with respect to tariff elimination is similar to that of the CEECs, yet much more gradual since tariffs in Tunisia and other Mediterranean countries are much higher than in the CEECs to start with.

Right of establishment and supply of services. The right of establishment (i.e., freedom to engage in foreign direct investment) is an objective in this agreement but the achievement of this objective is to be determined by the Association Council. The agreements with the CEECs on this respect, however, differ widely as the EU-granted free entry and national treatment to all firms from the CEECs from 1992 on with some exceptions. In reciprocity the CEECs also grant free entry and national treatment to EU firms, with transitional periods for certain sectors of activities. Cross-border trade in services has been excluded from the agreement, which only refers to the obligations of each country established under the GATS, which did not exist at the time the Europe Agreement were negotiated. Obligations under the GATS do not imply liberalization, and Mediterranean countries made very limited commitments under the GATS, subjecting less than 10% of their service sectors to the national treatment or market access principles.

Capital movements. The EU/Tunisia agreement only requires that capital flows related to direct investment in Tunisia by EU firms in companies formed in accordance with current laws can move freely, and that income can be liquidated and repatriated.

Competition policy and approximation of laws. The agreement requires adoption of the basic competition rules of the EU, in particular with respect to collusive behaviour, abuse of dominant position, and competition-distorting State aid, in so far as they affect trade between the Union and Tunisia. Implementing rules are to be adopted by the Association Council within five years. Until then GATT rules with respect to countervailing of subsidies will apply. State aid, compatible with EU rules for disadvantaged regions, can be applied to the entire territory of Tunisia during the first five years.

The intraregional dimension and rules of origin. An objective of the EU/Tunisian agreement is to promote the integration of the Maghreb countries. The EU in general is in favour of greater integration of the economies of the Mediterranean countries. This is important, as the negotiation of bilateral agreements between the EU and each of the Mediterranean countries would otherwise lead to a so-called "hub-and-spoke system". A problem with such an arrangement is that it creates incentives for firms to locate in the "hub", i.e., the EU, as this gives them barrier-free access to all the "spokes". All other things equal, this creates forces against inward foreign direct investment by EU-based firms producing tradable goods.

The Tunisian agreement allows for cumulation for rules of origin purposes for products produced in Algeria and Morocco as well as in the EU and Tunisia. This may help create backward and forward linkages between the Maghreb countries and enhance the potential for intra-industry trade.[9]

150. Although the EU agreements with other Mediterranean countries will not deviate largely from the agreement with Tunisia, some improvements can still be introduced through emphasizing certain issues, such as the following:

(a) The negotiation of a free trade area has to be monitored in respect of the difficulties which will be encountered by Mediterranean countries in adjusting to reciprocal trade relations with the EU;

(b) In view of the above, a long transitional period with safeguard provisions adequate to the economic situation of the Mediterranean countries should be envisaged;

(c) The agreements should encompass not only trade in goods but also other aspects such as services;

(d) There must be improved market access for agricultural products;

(e) The protocol on rules of origin should be revised to enlarge the scope of the regional cumulation option. Existing single list requirements should be eased and matched with the real manufacturing possibilities of the Mediterranean countries. Provision for derogation should also be made;

(f) The enlargement of the scope of the new agreement should be coupled with financial and technical assistance in the new areas covered by the agreement, including social security, services and transport.

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[9] Hoekman and Djankov, op. cit., pp. 8-15.

E. Barcelona Declaration: cooperation in social, economic and political domains[10]

151. The Barcelona Declaration, which was issued at the conclusion of the above-mentioned Euro-Mediterranean Conference, covered most of the above points when it set the goals of the partnership and the strategy for achieving them.

152. The Euro-Mediterranean Conference was attended by representatives from the Council of the EU, the European Commission, and all EU member countries in addition to representatives of Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syrian Arab Republic, Tunisia, Turkey and the Palestinian Authority. At the end of their two-day meeting they agreed to establish a comprehensive partnership among themselves—the Euro-Mediterranean partnership—through strengthening of political dialogue on a regular basis, the development of economic and financial cooperation and greater emphasis on the social, cultural and human dimensions. The partnership therefore, has three main aspects:

(a) Political and security partnership: establishing a common area of peace and stability;

(b) Economic and financial partnership: creating an area of shared prosperity;

(c) Social, cultural and human affairs partnership: developing human resources, promoting understanding between cultures and exchanges between civil societies.

Under the economic and financial partnership the participants set themselves the following long-term objectives:

(a) Acceleration of the pace of sustainable socio-economic development;

(b) Improvement of the living conditions of their populations, increase in the employment level and reduction in the development gap in the Euro-Mediterranean region;

(c) Encouragement of regional cooperation and integration.

With a view to achieving these objectives, the participants agreed to establish an economic and financial partnership which, taking into account the different degrees of development, would be based on the following:

(a) The implementation of appropriate economic cooperation and concerted action in the relevant areas;

(b) A substantial increase in the European Union's financial assistance to its partners.

(c) The free-trade area to be established through the new Euro-Mediterranean agreements and free-trade agreements between partners of the European Union.

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[10] *Jordan Times*, 4 December 1995.

Free trade area: The parties have set the year 2010 as the target date for the gradual establishment of this area, which will cover most trade with due observance of the obligations resulting from the WTO. Tariff and non-tariff barriers to trade in manufactured products will be progressively eliminated in accordance with timetables to be negotiated between the partners. Trade in agricultural products will be progressively liberalized through reciprocal preferential access among the parties; trade in services including right of establishment will be progressively liberalized with due regard for the GATT agreement.

The participants decide to facilitate the progressive establishment of this free-trade area through the following:

(a) The adoption of suitable measures as regards rules of origin, certification, protection of intellectual property rights and competition;

(b) The pursuit and the development of policies based on the principles of market economy and the integration of their economies taking into account their respective needs and levels of development;

(c) The adjustment and modernization of economic and social structure, giving priority to the promotion and development of the private sector, to the upgrading of the productive sector and to the establishment of an appropriate institutional and regulatory framework for a market economy;

(d) The promotion of mechanisms to foster transfers of technology.

Economic cooperation and concerted action: While acknowledge that economic development must be supported by internal savings and direct foreign investment, it was agreed that cooperation should be developed in these areas:

(a) Modernizing and restructuring agriculture and promoting integrated rural development;

(b) Developing and improving infrastructures including the establishment of efficient transport systems, the development of information technologies and the modernization of telecommunications;

(c) Integrating environmental concerns into the relevant aspects of economic policy;

(d) Promoting the active participation of women in economic and social life and in the creation of employment;

(e) Strengthening cooperation and intensifying dialogue in the field of energy policies;

(f) Strengthening scientific research capacity and development, contributing to the training of scientific and technical staff and promoting participation in joint research projects based on the creation of scientific networks;

(g) Promoting cooperation on statistics in order to harmonize methods and exchange data.

Financial cooperation : The Cannes European Council agreed to set aside ECU 4.7 billion as financial assistance for the period 1995-1999 to the free-trade area and the Euro-Mediterranean partnership.

This will be supplemental by assistance in the form of increased loans and bilateral financial contributions from the member States.

F. THE EFFECTS OF THE LIBERALIZATION OF WORLD TRADE ON PREFERENTIAL/RESTRICTIVE MEASURES IN EU/ESCWA TRADE

153. The reduction/elimination of tariffs and non-tariff barriers to trade, and the special treatment now allowed to least developed countries indefinitely and to middle income developing countries for a transition period of about 10 years allowed by the conclusion of the Uruguay Round, will minimize the advantages of tariff preferences now given by the EU to some developing countries, including some ESCWA member countries, which are already members or becoming members in GATT/WTO. Moreover, the restrictive measures imposed by the EU on trade with the Mediterranean countries will be surpassed by the WTO arrangements. Therefore, those ESCWA member countries that have special trade arrangements with the EU and are already members in GATT or current applicants to GATT/WTO will not lose—even if they do not gain—from the liberalization of world trade. However, for other ESCWA member countries that are not yet members of GATT or do not have the intention to become members, their current arrangements with the EU or any future arrangements will be beneficial to them if based on the existence of a free trade area between the two parties. This is because GATT/WTO principles allow for preferential treatment to be granted for members of the customs union and free trade areas. The EU very much wants to strengthen trade relations with ESCWA member countries owing to the political and commercial ties with them, which go back to colonial times, regardless of whether or not the countries are members of GATT/WTO. In case other GATT members object, the EU is willing to resort to the waiver in order to protect its preferential treatment granted to these countries.

154. The EU, however, has taken a certain stand regarding three issues which are of special importance to the major oil exporting countries in the ESCWA region (the GCC countries and Iraq): the membership of these countries in GATT/WTO could be detrimental to EU interests linked to these issues. The issues are the carbon tax, petrochemical exports to the EU and crude oil.

155. The carbon tax, as a tariff, is against the principles of trade liberalization, and the ESCWA members that are major oil exporting countries can benefit from joining GATT if the EU decides to impose this tax on imported oil. However, the EU argues that if the carbon tax is imposed, it will be a kind of value-added tax (VAT), i.e. an internal tax and not a tariff; consequently it will not be against GATT/WTO principles.

156. There are currently certain arrangements between the EU and GCC countries regarding the latter's exports of petrochemicals to the EU. However, if the GCC countries insist on including their trade in petrochemicals with the EU under GATT principles, which require the elimination of tariffs and quotas, the EU will initiate anti-subsidy procedures. The EU considers the prices of the GCC petrochemicals as highly subsidized since the price of the domestically used oil and gas is much lower than international prices.

157. Crude oil was not on the agenda of the Uruguay Round negotiations and some experts relate the exclusion to the fact that neither tariffs nor non-tariff barriers are imposed on oil imports. However, that does not mean that oil could not be subject to the principles of GATT in the future.[11]

158. What matters in this respect for the ESCWA region, mainly the GCC countries and Iraq, is: what will be the consequences of including oil under GATT principles? Unofficial discussions between concerned economists reveal disagreement on the matter. Some believe that it is for the benefit of oil producing countries to include crude oil under GATT principles in order to protect their interests from any discriminatory measures that may be imposed in the future by oil importing countries in the form of tariffs or quantitative restrictions. Both practices are possible if the oil market becomes, for any reason, a consumer's market. Others, however, believe that the inclusion of oil under GATT principles will be to the disadvantage of oil exporting countries in general and ESCWA major oil exporting countries in particular because of their heavy reliance on oil exports. That is because since GATT principles aim to achieve gradual liberalization of world trade, the potentiality of preventing OPEC, when oil is covered under GATT principles, from imposing production quotas on member countries is high. The potentiality becomes greater, if not certain, if the EU succeeds in convincing other GATT members to cover competition policy by the principle of GATT. If this happens, OPEC as a cartel could be dismantled and oil could become a freely-traded commodity. Taking the background of the establishment of OPEC into account and the long exploitation of oil producing countries by multinational oil companies, such an arrangement is likely to cause a big drop in oil prices since the removal of controls over production can easily cause over-supply in the oil-market, which leads to price wars among oil producing countries to the advantage of oil importing countries. However, the extent to which members of WTO could insist that regulatory arrangements relating to a single commodity be dismantled is not clear. On the contrary, WTO principles provide for safety clauses allowing sovereign States a large degree of latitude when balance of payments requirements and major sources of income are concerned. The development momentum of countries depending on single commodities must have precedence over a larger degree of freedom in international trade.

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[11] This was emphasized by EU officials during a mission undertaken by ESCWA staff to EU headquarters and confirmed by GATT officials during seminars and conferences.

Annex to chapter IV

LIST OF PRODUCTS EXCLUDED FROM THE SCOPE OF THE EU COOPERATION AGREEMENTS WITH THE MEDITERRANEAN COUNTRIES: ANNEX II TO THE TREATY OF ROME ESTABLISHING THE EUROPEAN COMMUNITY

Description

CHAPTER 1	*Live animals*
CHAPTER 2	*Meat and edible meat offals*
CHAPTER 3	*Fish, crustaceans and molluscs*
CHAPTER 4	*Dairy produce; birds' eggs; natural honey*
CHAPTER 5	
05.04	Guts, bladders and stomachs of animals (other than fish), whole and pieces thereof
05.15	Animal products not elsewhere specified or included; dead animals of (categories) chapter 1 or chapter 3, unfit for human consumption
CHAPTER 6	*Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage*
CHAPTER 7	*Edible vegetables and certain roots and tubers*
CHAPTER 8	*Edible fruit and nuts; peel of melons or citrus fruit*
CHAPTER 9	*Coffee, tea and spices, excluding maté (heading No. 09.03)*
CHAPTER 10	*Cereals*
CHAPTER 11	*Products of the milling industry; malt and starches; gluten; inulin*
CHAPTER 12	*Oil seeds and oleaginous fruit; miscellaneous grains, seeds and fruit; industrial and medical plants; straw and fodder*
CHAPTER 13	
ex 13.03	Pectin
CHAPTER 15	
15.01	Lard and other rendered pig fat; rendered poultry fat
15.02	Unrendered fats of bovine cattle, sheep or goats; tallow (including "premier jus") produced from those fats
15.03	Lard stearin, oleostearin and tallow stearin; lard oil, oleo-oil and tallow oil, not emulsified or mixed or prepared in any way
15.04	Fats and oil, of fish and marine mammals, whether or not refined
15.07	Fixed vegetable oils, fluid or solid, crude, refined or purified
15.12	Animal or vegetable fats and oils, hydrogenated, whether or not refined, but not further prepared
15.13	Margarine, imitation lard and other prepared edible fats
15.17	Residues resulting from the treatment of fatty substances or animal or vegetable waxes
CHAPTER 16	*Preparations of meat, of fish, of crustaceans or molluscs*
CHAPTER 17	
17.01	Beet sugar and cane sugar, solid

17.02	Other sugars; sugar syrups; artificial honey (whether or not mixed with natural honey); caramel
17.03	Molasses, whether or not decolourised
17.05[a/]	Flavoured or coloured sugars, syrups and molasses, but not including fruit juices containing added sugar in any proportion
CHAPTER 18	
18.01	Cocoa beans, whole or broken, raw or roasted
18.02	Cocoa shells, husks, skins and waste
CHAPTER 20	*Preparations of vegetables, fruit or other parts of plants*
CHAPTER 22	
22.04	Grape must, in fermentation or with fermentation arrested otherwise than by the addition of alcohol
22.07	Other fermented beverages (for example, cider, perry and mead)
ex 22.08[b/] ex 22.09[c/]	Ethyl alcohol or neutral spirits, whether or not denatured, of any strength, obtained from agricultural products listed in annex II to the Treaty, excluding liqueurs and other spirituous beverages and compound alcoholic preparations (known as "concentrated extracts") for the manufacture of beverages
22.10[d/]	Vinegar and substitutes for vinegar
CHAPTER 23	*Residues and waste from the food industries; prepared animal fodder*
CHAPTER 24	
24.01	Unmanufactured tobacco; tobacco refuse
CHAPTER 45	
45.01	Natural cork, unworked, crushed, granulated or ground; waste cork
CHAPTER 54	
54.01	Flax, raw or processed but not spun; flax tow and waste (including pulled or garnetted rags)
CHAPTER 57	
57.01	True hemp (Cannabis sativa), raw or processed but not spun; tow and waste of true hemp (including pulled or garnetted rags or ropes)

a/ Heading added by article 1 of regulation No. 7a of the Council of the European Economic Community, of 18 December 1959 (*Official Journal of the European Communities*, No. 7, 30 January 1961, p. 71 - special edition [English edition] 1959-1962, p. 68).

b/ Ibid.

c/ Ibid.

d/ Ibid.

V. CONCLUSION AND RECOMMENDATIONS

Conclusions

159. This examination of the impact of the establishment of the Single European Market on the foreign trade of the ESCWA member countries has revealed that, despite the historical, commercial and, economic ties between countries of the ESCWA region and the EU countries, which go back to colonial times, trade with ESCWA member countries is of very little importance in the EU total foreign trade.

160. The bulk of EU trade is with developed countries and is mainly intra-EU trade, while the shares of developing countries and those of the rest of the world are declining. Therefore, any increase in EU trade generated by the establishment of the SEM will be more to the advantage of its own member countries and other developed countries since the share of all developing countries over a 12-year period was just over 10% and in later years almost half of that share was taken by newly industrialized countries in South and South-East Asia.

161. The sharp decline in the share of ESCWA member countries in EU imports following the slump in the oil market in the mid-1980s indicates that unless there are major improvements in the ESCWA region's production base and structure, its share in EU total trade will not automatically increase with a more liberalized EU market.

162. The EU was the main trading partner of the ESCWA member countries in the early 1980s; since then it has been displaced, in so far as exports are concerned, by Japan and developing countries (mainly Asia). However, the EU continued to supply more than one third of the region's total demand for imports.

163. For the GCC countries the main commodity exports to the EU are crude oil and petroleum products. For other ESCWA member countries the pattern is more diversified, although crude oil and petroleum products are also dominant in the exports of Egypt and the Syrian Arab Republic.

164. The main sources of competition against ESCWA oil and gas exports are the former Soviet Union, the Islamic Republic of Iran, North Africa and Europe itself. For agricultural products, the main sources of competition are Europe, North Africa, Israel and Turkey. For manufactured goods, however, North Africa, South and South-East Asian countries, Turkey and Central and East European countries, are the region's main competitors.

165. A main reason for this large increase in the EU trade with the Central and Eastern European countries is the rapid expansion of their intra-industry trade. The EU agreements with the CEECs have created incentives for EU suppliers/retailers to engage in so-called outward processing trade.

166. The conclusion reached from estimating the impact of the Single European Market on the external sector of the ESCWA region through trade creation, trade diversion and terms of trade 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% of the region's total exports.

167. Owing to the small size of the impact of the SEM on the external sector of the ESCWA region, such an impact 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 dispute settlement procedures under the new WTO and the evolution of regionalism and demands for new disciplines on labour and environmental practices.

168. The conclusion of the Uruguay Round by end-1993 is another important dimension that could add to the complexity of the issue of the unification of the European market and its impact on ESCWA member countries. The net effects of the liberalization of world trade on the internal reforms of the EU and its trade and economic relations with the rest of the world are not clear yet. This will depend, however, on the extent to which internal adjustment pressures within the European Union will hamper efforts for external liberalization or the extent to which internal reforms will be applied in a discriminatory way in favour of one region against another.

169. The reductions in general international tariffs and increases in the trade-related area now covered by multilateral arrangements reduce the incentive to obtain the internal advantages of a regional trading group.

Recommendations

(1) Owing to the sensitivity and complexity of the issue of crude oil, the ESCWA major oil exporting countries need to study the matter in respect of the advantages and disadvantages of including crude oil under GATT/WTO principles. This is in order to reach a unified stand during any future negotiations with GATT, taking into account the special nature of oil as a non-renewable natural resource and the crucial role of oil revenues in their development process.

(2) The activation and expansion (to include all Arab countries) of the Arab common market will be inevitable under the European Union's new Mediterranean policy, which is aimed at creating a Mediterranean free trade area. This will force the abolishment of all types of 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.

(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) 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 from subsidies.

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