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1992 and the Developing Countries*

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The completion of the European Community's single market in 1992 evokes the keen interest of the outside world but also some wariness. The single market will be an open market and will offer new opportunities for Europe's partners as well. The interests of the developing countries will have to be given special consideration. An economically strong Europe is politically advantageous to them and there will be new economic opportunities. But there are problems related to the varying capacity of developing countries to take advantage of opportunities offered by the single market combined with the worldwide trend towards trade liberalisation and the inevitable erosion of their preferences. The weakest must be able to count on receiving special consideration. A dynamic Community should step up its development aid programme. The integration process should also lead to greater co-ordination of national and Community development policy.

No event in the still brief history of the European Community has raised so much public interest as the completion of the single market, which is almost magically linked to the year 1992. While the completion of the customs union in 1968, considered by many not only as a historic

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point in the unification of Europe, but also as important as the completion of the single market, was something only the initiated were aware of, the 1992 objective has aroused much wider public awareness and is the subject of lively debate.

The single market of 1992 has opened up new prospects for the Community and rescued it from the unfavourable headlines that have accompanied its activity in recent years. Figures illustrating the Community's rising costs and budgetary plight, the growing surpluses and the cost of disposing of them have been replaced by figures which give fresh hope. The economic benefit of the single market to the whole community can be estimated at some 200 billion ECU or, put another way, a 5% growth in the Community's GNP, according to a study carried out for the Commission known as the Cecchini Report. The report also forecasts the creation of two million jobs as a result of the completion of the single market, even five million if the appropriate accompanying measures are taken. At the same time it would bring consumer prices down by an average of 6%. The prospect of 1992 has injected the Community with a new "get up and go" spirit and given European unification a fresh impetus.

Fortress Europe?

The outside world's attitude towards this process, which it is not directly involved in but whose effects it cannot escape, is one of interest but also scepticism, even disquiet.

Countries such as the EFTA countries, which have particularly close economic links with the Community, fear that the consolidation of the Community as an economic power will lead to outside influence on their domestic economic decision-making. Other industrialised countries such as the United States and Japan suspect that the completion of the single market could be accompanied by a tendency towards protectionism or at any rate could make access more difficult for competing products from non-member countries.

Lastly the developing countries are voicing concern, if not so vociferously. They fear that completion of the single market could affect traditional trade relations with the Community and particularly with individual Member States without any opportunities of equal value being offered in return. And quite simply there is the fear that as the weakest they will be the losers in an increasingly competitive struggle.

Hitherto the Community has dealt with these fears in only a very general fashion. Some statements, torn from their context to become slogans — "Europe neither fortress nor sieve", "Europe between liberalisation and protectionism" and the most emotive word of all "reciprocity" — have indeed strengthened existing concern. If we put ourselves in our partners' place, we must surely understand that what seems a very introverted discussion on the creation of our European single market could feed fears of a certain insulation from the external world. It is high time these issues were tackled

An open market

The general fear of non-member countries — that the price of completion of the single market will be a closing of doors against the outside world —is to my mind completely unfounded.

1. The single market is an internal goal — the free movement of goods, people, services and capital within the Community. External economic policy is really not an instrument that can be used to complete the internal market.
2. The objective of creating a single market is not a new one, nor are the measures that have been adopted new. The 1992 programme is thus only a stronger expression of objectives set out in the Treaty of Rome; it gives concrete form to, and speeds up, the process of integration that began in 1958. In fact, the abolition of customs duties and taxes having equivalent effect and the abolition of quantitative restrictions and measures of equivalent effect in intra-Community trade, for instance, are just as important from the foreign trade point of view as the removal of the other obstacles to trade, due to be completed by 1992. Yet the Community has not in the past used such measures as an excuse to increase external protection. On the contrary, internal integration has not distracted the Community from its efforts to liberalise the international trading system. For example, the share of the Community's GNP accounted for by imports of goods and services rose by over 3% between 1960 and 1980, despite the major changes that took place in the Community during that period.

3. The Community can not afford a closed market for economic reasons. It is the world's leading trading power and thus, on account of its deep involvement in the world market, has inevitably the greatest interest in the liberalisation of world trade. It accounts for about 20% of world trade compared with the United States' 14%. In 1986 the proportion of Community GNP generated by exports from the Community of goods and services was 14.8% against 11.6% for Japan and 6.8% for the United States. In the same year, imports of non-Community goods and services made up 13% of the Community's GNP against 6.8% for Japan and 10.2% for the United States.

4. Closure of the market is ruled out for legal reasons. The Community's present foreign trade arrangements are inextricably tied to a multifaceted international contractual system which makes unilateral revision impossible. This is true not only within GATT but also of the Community's special commitments such as the Lomé Convention, the Agreements with the Southern and Eastern Mediterranean countries, and the Agreements with the EFTA countries. The undertakings made at Punta del Este (concerning rollback and standstill) are yet another bulwark against any possible new protectionist measures.

5. Lastly, political reasons prevent the Community from closing its market for it would jeopardise its standing, indeed its credibility in international dealings.

For these reasons the Community can give the outside world a clear assurance that the single market of 1992 will remain an open market.

New opportunities for partners

The single market will not only remain open. While it is primarily an internal objective, it should also make a decisive contribution towards improving international trade.

The fusing of 12 individual markets into a single unified market with 320 million consumers is bound to bring about greater transparency and thus qualitative and procedural improvements in access. Harmonisation or mutual recognition of legislation and the principle of the free movement of goods within the Community will make it possible to tackle the single market with all the advantages of economies of scale. It may also facilitate the development of new markets that were previously too small to be viable.

The vigour of the single market will affect our international trading partners too. The rise in the general standard of living will necessarily mean increased demand for consumer goods, and rising production within the Community will mean increased demand for raw materials. So not only will exports from non-member countries to the Community increase as a result of the completion of the single market (by about 7% in volume terms, the Commission estimates) but the growth in demand, especially for raw materials, will have a stabilising influence on world prices.

In other words, the single market, despite the fact that it is an internal goal, will make a decisive contribution towards the growth of international trade. It should therefore play an important role in stimulating the world economy, an expectation that was clearly expressed at the Western Economic Summit in Toronto.

Naturally, these comments are of a very general nature and the effect on individual partners is currently being studied in greater detail.

The developing countries

The consequences of the completion of the single market will vary in nature and intensity depending on the economic structure and competitiveness of our trading partners.

Japan will be better able to seize these new opportunities than Senegal and, among the developing countries, South Korea will be better placed than Burkina Faso.

Insofar as the effects of the single market are not simply mechanical, but can be controlled, the Community will have to differentiate between strong, fully competitive non-member countries and weaker trading partners.

Without jeopardising either the completion of the single market or its accessibility, the Community should always see that the measures it adopts take special account of the interests of the developing countries, especially the weakest amongst them, whenever they would be affected.

To my mind it is imperative that the Community take action at the highest level to put this message across more clearly than it has yet done in order to counter the growing disquiet. In doing so, it will be able to argue convincingly that the process of European unification has hitherto gone hand in hand with the steady build-up of the Community's development commitments.

The experience of past decades has shown that the more united a stand the Community has taken on the international stage, the more firmly it has been able to commit itself compared with other Western industrialised powers, to a constructive balancing of interests in North-South relations. The initiatives taken by the Community and its Member States at the Toronto Summit concerning the developing countries' debt problems are but one recent example of this. The growing economic strength of the Community arising from the completion of the single market will give the Community's initiatives still greater political weight. The developing countries should therefore consider 1992 a political gain.

The liberalising effect of the completion of the single market, its greater dynamism and the harmonisation of standards and procedures will also offer benefits for the developing countries. Naturally, this will depend not only on the economic structure and level of development of the individual countries but also on their own initiatives and their will and capacity to seize the new opportunities. Thus it will be primarily the developing countries with flexible production capacity that will take advantage of the enlarged market and the new opportunities it will offer for increased earnings. Increased demand in the Community for raw materials will chiefly benefit those developing countries that can offer competitive and flexible supplies. The increased demand for consumer goods will be of greatest advantage to those where the process of industrialisation is well advanced. The opening up of markets for services and financial transactions will also primarily benefit the developing countries that are already in a position to meet Community demand.

Generally speaking, then, the single market offers new opportunities for the developing countries as well, though particularly, of course, for the more advanced ones.

Dangers

At the same time there are problems and dangers that should not be played down: the varying capacity of our partners to take advantage of the opportunities offered by the single market combined with the worldwide trend towards liberalisation (Uruguay Round), and the inevitable erosions of the preferential margins enjoyed by developing countries, will lead to greater competition on our market. In this situation the weakest could well find the going initially much harder. They must therefore be able to count on receiving special consideration and support under our development policy. Also, the fear that private investors might find the single market so attractive and so important that investments in the developing countries suffer as a result is by no means far-fetched.

The Community must do something to counteract these tendencies if it does not want to see the credibility of its development policy undermined.

In my view the Community should:

(i) not only maintain but, wherever possible, improve existing special provisions to aid the developing countries (the Lomé Convention, the Agreements with the Mediterranean countries, the Generalised System of Preferences);

(ii) actively help the developing countries to familiarise themselves with the new features of the Community market so that they can adapt more easily and become more competitive (seminars, technical assistance, trade promotion, etc.);

Moreover, in building the single market, that is, in adopting the decisions necessary to complete the single market, the Community must not neglect the interests of the developing countries or its obligations towards them. Whenever there is more than one way of achieving an objective, the one which furthers development policy should be preferred. It might also be useful in some specific borderline cases to look at the possibility of giving the developing countries a period of time to help them adjust to the new rules and regulations.

Particular concern has been provoked by the Community's demand for reciprocity, largely because of misunderstandings, perhaps also because of deliberate misinterpretation. There is no need for panic, especially on the part of the developing countries, or by others. As regards their trade with the Community, 1992 will not throw up any particular problems. The principle of non-reciprocity is enshrined in the Lomé Convention and most of the Mediterranean Agreements. On the other hand, if certain developing countries become more competitive, it is quite natural to expect a fuller participation of these countries in the multilateral trading system. That, however, is primarily a problem for the GATT negotiations and not something specifically related to the completion of the single market. The demand for reciprocity in the fields of services and the movement of people and capital may need to be looked at more closely, and I shall return to this below.

Problem areas

The completion of the internal market is essentially a programme ultimately aimed at permitting the completely free and unrestricted movement of people, goods, services and capital. To achieve that goal a series of measures will be needed which will vary in their impact on developing countries. A comprehensive study of the effects of the internal market on developing countries must accordingly look not only at the effects of the completed internal market but also at the individual measures leading to that goal. Such a study is at present no easy matter, for the measures concerned have not all been formulated yet, let alone adopted. We can, however, identify problem areas and suggest possible approaches.

Trade

The developing countries are most directly concerned by measures affecting trade. This is quite understandable, for of all the areas involved trade is the most important for developing country relations with the Community, given their level of development.

Free movement of goods: The establishment of free movement of goods within the Community first and foremost requires the removal of the remaining customs related restrictions on intra-Community trade. The most important of these are the Decisions on the basis of Article 115 of the EEC Treaty by which the Commission authorises individual Member States to exclude certain products completely or partially from free circulation. These decisions are by definition contrary to the goals of the internal market. They exist, however, because of external trade considerations, in this case the fact that the common commercial policy has not been completed and there are still national quantitative restrictions on direct imports into certain Member States. Thus completion of the internal market first entails the removal of national quantitative restrictions — and this is the only external trade measure concerned — for only then will the provisions of Article 115 become redundant.

This measure has itself caused disquiet among non-member countries, some of which suspect that the Community intends to extend the regional protection hitherto provided for the economic interests of individual Member States to the Community as a whole, by converting national quantitative restrictions into Community quotas.

As far as the developing countries are concerned , this problem has to be seen in perspective. The Commission has compiled an inventory showing that national quantitative restrictions currently apply to some 735 tariff headings, but the vast majority concern state-trading countries or Japan. In the case of the ACP countries, national quantitative restrictions remain for just 9 agricultural products. The inventory further shows that a significant number of these restrictions remain only on paper and are either no longer applied by the Member States, or at least are not backed up by protective measures under Article 115. The restrictions still applying to the ACP States fall in the latter category. All such national quantitative restrictions must indeed be eliminated, since potentially at least they represent a barrier to the free movement of goods within the Community. However, the fact that they are not applied or not backed up by protective measures under Article 115 indicates that in most cases Community producers do not really require protection and there would be no justification for extending the measures to the whole Community. Indeed, the Community is currently studying the possibility of eliminating as many of these national quantitative measures as possible without replacing them with anything else. In the Uruguay Round negotiations the Community has already proposed the progressive removal of all national quantitative restrictions applied to tropical products, with the exception of bananas — to which I shall return later.

The sectors left after this operation — about fifteen — constitute the "hard core" of the problem for the Community. However, they concern products which are generally of little interest to developing countries, few of which produce and export them, such as motor vehicles and electronic goods, but also footwear, tablewear and toys. These deliberations are still continuing, and this in itself shows how seriously the Community is considering the problem. The Community will take the interests of the developing countries into consideration, but also their level of development. It will certainly bear in mind its special responsibilities towards its preferential partners, such as the ACP States and the Mediterranean countries — indeed it has already abolished all quantitative restrictions on imports of manufactured goods from these countries.

Special reference should be made to two products which are often referred to and which also concern the developing countries, namely textiles and bananas.

The allocation among individual Member States of the export quotas opened for developing countries in the framework of the Multifibre Arrangement and the insulation of Member States markets from each other are clearly incompatible with the goals of the internal market. It is equally clear that the elimination of these restrictions depends on the reorganisation of the Community's textile policy. This is scheduled for 1991, when the current Multifibre Arrangement ends. Already during the negotiations on these agreements the Community expressed its intention of restoring GATT disciplines to international trade in textiles as soon as possible.

The current arrangements for bananas, which involve national quantitative restrictions and the insulation of Member State markets from each other, are also incompatible with the aims of the internal market. By 1992 the Community will have to draw up common arrangements, and it has already begun work on this. This is certainly no easy task, since differing and indeed contradictory interests have to be reconciled. The Community will clearly have to take the interests of producers and consumers into consideration in drawing up the new arrangements. However, it will also have to take into consideration the legitimate interests of developing countries and the particular undertakings it has made to certain of them.

Elimination of technical barriers: I shall now turn to the second trade measure required by completion of the internal market, namely the elimination of technical barriers to trade. We all know just how much the free movement of goods is restricted by the plethora of standards relating to the protection of health, public security and the environment, and to manufacturing processes and product safety. These barriers must also be removed if we are to complete the internal market.

There are basically two ways the Community can do this: harmonisation and mutual recognition.

Harmonisation in particular has caused concern to our partners, whereas mutual recognition and especially the advantages it offers have hardly been noticed.

Our partners fear that the Community may take the opportunity of harmonising its laws to set up new external barriers. This concern is expressed in particular by the developing countries, which are generally not as technically advanced as the Community. They foresee a proliferation of the few conflicts which have arisen in the past.

Some points need to be clarified:

(i) Whereas the harmonisation of legislation used to be the Community's preferred means, and indeed initially constituted the only means, of removing technical barriers to intra-Community trade, it is now conceived by the Community as an exceptional measure. Mutual recognition is now the rule. In future the harmonisation of laws will therefore be on a much smaller scale than in the past.

(ii) The harmonisation of legislation within the Community is restricted to the most basic requirements for the protection of life and health of people and animals, the environment, public security, etc. Technical specifications remain a matter for the Member States or European standards organisations. Barriers to trade resulting from technical specifications which differ from one Member State to another are eliminated by mutual recognition.

(iii) The elimination of technical barriers to trade is wholly subject to the GATT code on standards. The Community is therefore unable to use the harmonisation of laws to erect external barriers.

(iv) For this reason the Community must wherever possible align the harmonisation of its laws on international standards. The harmonisation of legislation thereby also constitutes a challenge to developing countries to adapt to international developments and open up new markets for their products.

(v) Harmonisation of legislation opens up new markets within the Community for the developing countries and gives them the economic advantages I described earlier: increased transparency, production of greater quantities at lower unit costs, etc.

(vi) Harmonisation of legislation thereby contributes to the liberalisation of international trade, and the developing countries also stand to benefit from this.

Certain fears expressed by the developing countries are nevertheless quite understandable. For instance, the Single

European Act requires harmonisation at the highest level in the areas of health, security, environmental protection and consumer protection. This requirement could lead to difficulties for the developing countries (e.g. cadmium in phosphate fertilisers, standards for aircraft noise). The Community should therefore show a measure of understanding for the problems facing developing countries in these sectors. It will have to measure the essential nature of each of its internal goals against the constraints and needs of developing countries. It should consider the possibility of giving developing countries more time to adjust to the new standards. In certain cases it could provide technical and financial assistance to help them adapt their products to the new requirements.

However, the second instrument for removing technical barriers to trade — mutual recognition — has now become the norm and deserves closer attention. It enables products which are legally manufactured and sold in any Member State to circulate freely throughout the Community. This principle includes not only goods which originate in a Community Member State, but also those which have been legally imported into a Member State and entered for free circulation there. Thus products from developing countries also benefit from the principle of mutual recognition: provided they have been legally imported into a Community Member State and entered for free circulation there, they can circulate freely throughout the Community.

The tests to which they are subject in the country of first importation and the certificates issued there are valid throughout the Community, and no further analyses, tests or certificates can be required.

This aspect of the completion of the internal market will benefit developing countries: the Community market will offer them the opportunities hitherto restricted to the markets of individual Member States.

Elimination of fiscal barriers: Finally on trade, a few words about the elimination of fiscal barriers to trade, or in other words the harmonisation of tax rates.

The importance of harmonising tax rates for the completion of the internal market is clear, since variations in tax rates from one Member State to the next are one of the most important and most widely quoted reasons for the continued existence of borders within the Community ("customs frontiers have been replaced by tax frontiers").

Although the harmonisation of tax rates within the

Community is a purely internal matter, it is not without effects on the developing countries.

The harmonisation of taxes within the Community leads to greater mobility of goods, including imported goods. By eliminating frontier controls in intra-Community trade it also leads to a reduction in costs.

Nevertheless, it is still difficult at present to assess the practical effects of harmonisation, of value added tax especially, on imports of goods from non-member countries, and in particular developing countries, and a detailed study is needed. Such a study should consider not only actual tax rates for individual products but also the compensatory effect of tax harmonisation and, where appropriate, the price elasticity of demand for particular goods. However, this cannot be done until further progress has been made on harmonisation and the tax rates applied by the individual Member States are known.

The picture concerning excise duties is already somewhat clearer. The Commission has called for the present complex web of excise duties to be reduced and restricted in future to three groups of products: alcohol and alcoholic beverages, tobacco products and petroleum products. In principle all other excise duties would then be abolished. The Community has offered in the Uruguay Round to phase out or reduce excise duties on coffee, cocoa and tea, in so far as these have an effect on trade, thus meeting a longstanding demand of the developing countries. The abolition or reduction of excise duties which still has to be investigated, might boost demand on the Community market and so increase exports of tropical products to the Community. Therefore tax harmonisation, as regards excise duties at least, could be of direct benefit to the developing countries.

Other areas

Although the developing countries have focused their attention on the free movement of goods and its effects on trade with the Community, it should not be forgotten that completion of the internal market also covers other areas — freedom of movement for people, services and capital — which may also be of importance to the developing countries in the long term. It is, however, much harder to draw clear conclusions in these areas. This is partly because much less progress has so far been made in these areas. Although freedom of movement for people, services and capital is one of the objectives of the Treaty of Rome and should have been achieved by the end of the transitional period, progress has — with few exceptions — been far less spectacular or even non-existent.

Another difficulty is that these areas are not usually covered by multilateral rules and have only recently — in the case of services, for example — become the subject of international negotiations. So, to a greater extent than in the case of goods, the Community faces the double task of spelling out its own proposals for the internal market and defining its attitude towards non-member countries. This is further complicated by the multiplicity of cases within each sector; within the service sector computers, which transform services into transportable products, will require different treatment from the banking sector.

In spite of such difficulties it is clear that the freedom of movement for people, services and capital will further open up the Community market to non-member countries, and the developing countries can also benefit from this.

For instance, under the EEC Treaty a foreign company with a subsidiary established in a Community Member State under that country's law — whether it set the company up itself or acquired an existing company — has basically the same rights as a Community company and can accordingly set up further subsidiaries or branches in other Member States. It can also provide services throughout the Community without having to set up branches in the other countries.

The opening of the Community market in capital movement will in principle benefit everyone involved in the international finance market, following the Council's recent decision based explicitly on thc *erga omnes* principle.

Thus the completion of the internal market opens up new opportunities for non-member countries in these sectors. The Community is understandably not prepared to grant these advantages to its partners without receiving something in return, and it will insist on the principle of reciprocity, which also is the basis of international relations in the other spheres. However, the Community does not intend to apply the principle of reciprocity inflexibly and uniformly to all its partners. On the contrary, the Community should be prepared to adapt this principle to the level of development of each of its partners and even to abandon it entirely in the case of the poorest developing countries. This is a splendid opportunity for the Community to use the completion of the internal market in these sectors to further its development policy.

Development aid

Focusing the debate on trade problems could divert attention from development assistance and even promote the slogan "more trade, less aid". This should be avoided!

First, it is by no means guaranteed that the weakest developing countries — and they are the targets of development assistance — will actually benefit from the completion of the internal market. In certain sectors their position could, at least temporarily be made more difficult — as I explained earlier — as a result of stiffer competition.

Second, for many of these countries exports are unfortunately not the driving force behind development which the supporters of the comparative cost theory would claim. If, in the spirit of self-reliance, poor developing countries in Africa focus primarily on food security rather than cotton or groundnut exports, we must continue to use development assistance to provide effective support for such a sensible choice of priorities. A stronger Community — with increased GDP as a result of the internal market — should therefore be prepared to step up its development assistance programme.

We should at least reassure our partners that our development assistance programme will increase substantially: merely maintaining the Member States' development assistance at the present average level of 0.5% of GDP would in the medium term lead to a 5% increase in real volume without taking into account the effects of the internal market.

The new economic dynamism should be an added incentive to reach the 0.7% objective quickly.

It would be in line with the logic of the 1992 programme for an increasingly unified Community to extend the integration process to development assistance. However, as long as national and Community development assistance programmes continue to coexist, we should at least strive to set up a coordinated, coherent procedure. The developing countries find it hard to understand that in trade matters we face them as a single unit, while in development assistance, the debt question, at the World Bank and International Monetary Fund, we generally continue to act independently.

Conclusion

Europe is not becoming a fortress, it remains a reliable partner for the developing countries. Clearly, 1992 gives rise to expectations and fears amongst our partners as well as at home. The fact that the subject is discussed outside the Community should be welcomed: our partners take 1992 seriously too. For that reason alone the developing countries have a right to an answer to their questions and their worries. The Community's responsibilities in development policy dictate the only answer — that we shall continue to allow the developing countries to share the benefits of the integration process.