Seminar Proceedings Series
No. 20

THE IMPACT OF THE SINGLE EUROPEAN MARKET ON OIC MEMBER COUNTRIES

ISLAMIC RESEARCH AND TRAINING INSTITUTE
ISLAMIC DEVELOPMENT BANK
JEDDAH, SAUDI ARABIA

ISLAMIC RESEARCH AND TRAINING INSTITUTE (IRTI)

Establishment of IRTI

The Islamic Research and Training Institute was established by the Board of Executive Directors of the Islamic Development Bank (IDB) in 1401H (1981). The Executive Directors thus implemented Resolution No.BG/14-99 which the Board of Governors of IDB adopted at its Third Annual Meeting held on 10 Rabi Thani 1399H (14 March 1979). The Institute became operational in 1403H (1983).

Purpose

The purpose of the Institute is to undertake research for enabling the economic, financial and banking activities in Muslim countries to conform to shari'ah. and to extend training facilities to personnel engaged in economic development activities in the Bank's member countries.

Functions

The functions of the Institute are:

(A) To organize and coordinate basic and applied research with a view to developing models and methods for the application of *Shari'ah* in the field of economics, finance and banking;

(B) To provide for the training and development of professional personnel in Islamic Economics to meet the needs of research and shari'ah-observing agencies;

(C) To train personnel engaged in development activities in the Bank's member countries;

(D) To establish an information center to collect, systematize and disseminate information in fields related to its activities; and

(E) To undertake any other activities which may advance its purpose.

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The President of the IDB is also the President of the Institute. The IDB's Board of Executive Directors acts as its supreme policy- making body.

The Institute is headed by a Director responsible for its overall management and is selected by the IDB President in consultation with the Board of Executive Directors. The Institute consists of three technical divisions (Research, Training, Information) and one division of Administrative and Financial Services.

Location

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This Seminar Proceedings was held in Casablanca, Morocco from the 29th to the 31st October 1991 and was jointly organized by Islamic Research and Training Institute (IRTI) of Islamic Development Bank (IDB), Jeddah, Saudi Arabia and Islamic Center for Development of Trade (ICDT), Casablanca, Morocco.

Edited by

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بسم الله الرحمن الرحيم

In the name of Allah, the Most Merciful, Most Beneficent

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FOREWORD

As an international financial institution serving the Ummah, Islamic Development Bank (IDB) is aiming at fostering the economic development and social progress of member countries and Muslim communities in non-member countries in accordance with principles of Shari'ah. In order to achieve its objectives and to discharge the necessary obligations at an operational level, pertaining to research, training and dissemination of information, IDB established Islamic Research and Training Institute (IRTI) in 1401H (1981) and it became operational in 1403H (1982).

In fulfillment of this objective, IRTI undertakes a number of activities within the framework of its Annual Plan which includes conducting in-house research, sponsoring research studies by outside scholars, holding seminars and symposia independently as well as in collaboration with sister institutions, etc.

The 19th Islamic Foreign Ministers' Conference held in Cairo, Arab Republic of Egypt, from 9 to 13 Muharram 1411H (31 July to 4 August 1990) "requests the General Secretariat in Coordination with Ankara Center and Casablanca Center to undertake a periodical in-depth study and also requests Islamic Development Bank to carry out a similar study on the Economic and Social repercussions of the establishment of a unified European Market on the Islamic World". The Twentieth Islamic Conference of Foreign Ministers, held in Istanbul, Republic of Turkey, from 24 to 28 Muharram 1412H (4 to 8 August 1991) also requests the Islamic Development Bank (IDB) to carry out this study incorporating appropriate ideas to overcome the difficulties that may arise therefrom in the light of international developments. Against this background, the Seminar on "Impact of a Unified European Market on Islamic Countries", held in Casablanca, during 29-31 October 1991, was organized jointly by the Islamic Center for Development of Trade (ICDT) and Islamic Research and Training Institute (IRTI) of Islamic Development Bank (IDB).

The fifteen papers presented at the Seminar provide a succinct view of the regional variations in the prospective impact of the Single European Market on OIC Member Countries and identified a number of important issues and policy options.

It is hoped, the publication of this proceedings would contribute to enlightened discussions and constructive dialogue on the subject with a view to developing common strategy at the OIC level in the negotiations and future cooperation between Islamic Countries and European Community.

M. Fahim Khan
Officer-in-Charge, IRTI

PRESENTATION NOTE OF ICDT

The Islamic Center for Development of Trade (ICDT) with headquarters located in Casablanca (Morocco) is a privileged tool for the promotion of trade exchanges among the member states of the Organization of the Islamic Conference.

Created by the Third Islamic Summit Conference held at Makkah Al Moukarramah in Rabi Al-Awal 1401 (January 1981), ICDT has five main objectives:

1. To encourage the development of regular trade exchanges among member states,
2. To collect data on trade,
3. To assist in harmonizing commercial policies of member states,
4. To promote trade oriented investments among member states, and
5. To contribute to the implementation of the General Agreement on Economic, Technical and Commercial Cooperation between member states and of the Plan of Action on Economic Cooperation.

ICDT has initiated a whole set of actions enabling it to attain its institutional objectives. ICDT plays an important role in the field of:

1. Trade Promotion:

   a) by assisting member states in creating national organizations and associations for trade promotion or in strengthening existing ones;
   b) by encouraging the exchange of experiences and ideas for intracommunity trade promotion;
   c) by offering advice and making recommendations related to trade policies and the means to be adopted for intracommunity trade expansion;
   d) by encouraging contacts between businessmen in member states and by organizing meetings for them; and
   e) by organizing Islamic Trade Fairs.

2. Studies and Research aimed at promoting trade exchanges between member states.
3. Vocational Training:

   a) by organizing seminars and specialized training periods; and
   b) by assisting member states in creating a body of experts in the various fields of trade development.

4. Collecting and disseminating information and trade data among member states.
5. Assistance and consultancy to economic operators in the above mentioned fields.

HIGHLIGHTS OF INAUGURAL SPEECHES

The opening ceremony of the seminar organized by the Islamic Center for Development of Trade (ICDT) and the Islamic Research and Training Institute of the Islamic Development Bank (IDB/IRTI) was marked by speeches given by the Minister of Trade and Industry of the Kingdom of Morocco, the Director General of the Arab Monetary Fund, the President of the Islamic Solidarity Fund, the Representative of IDB and the Director General of ICDT.

Mr. Azmani, Minister of Trade and Industry of Morocco, pointed out that Islamic countries should take into account the international situation marked by the formation of economic groupings and contemplate Islamic groupings to establish cooperation links with other groupings particularly with those of Europe.

Mr. Azmani also emphasized the importance for the Islamic World to consider the financing of development, notably by resorting to Islamic funds, the opening of Islamic markets to products from Muslim countries and the utilization of potentialities, energies and Islamic know-how within the framework of Islamic complementarity.

The Director General of the Arab Monetary Fund, Mr. Osama Jaafar Faquih, stressed the relevance of the theme chosen for the seminar, which should be tackled with open mindedness and a will to benefit from the experiences of others. He pointed out that greater efforts should be made to single out the weak points of our policy to put them right and find out the strong points so as to reinforce them.

The President of the Islamic Solidarity Fund, Mr. Nasser Ben Abdallah Ben Hamadane, laid stress on the fact that Islamic countries have large potentialities, capital and markets and a strategic position which would allow them to achieve harmonious development.

Dr. M.A. Mannan, the Representative of IDB, emphasized the need to pool the efforts of the financial institutions of the Islamic World to promote their development, laying stress on the necessity for the Islamic World to unify within multilateral structures and to remove obstacles hampering the expansion of their inter-Islamic trade relations in order to meet challenges in common.

Finally, Mr. Badre Eldine Allali, Director General of ICDT, outlined the main activities of the Center in the fields of trade information, studies and research, trade promotion and training seminars.

Mr. Allali, pointed out that the seminar should contribute to the identification of the positive and negative implications of the establishment of the Single European Market and should outline an adequate strategy to face the new developments in Europe. The seminar should also strive to evaluate the constraints and opportunities to be generated by the establishment of the Single European Market on January 1, 1993, at global, regional and sectorial levels; notably, in the fields of Islamic labor migration and industrial cooperation.

Mr. Allali concluded by expressing his warm thanks to all participants as well as his appreciation to IDB/IRTI and ICDT for organizing the seminar.

Part One

THE SINGLE EUROPEAN MARKET: OVERVIEW

1

KEY ISSUES AND ECONOMIC IMPLICATIONS OF A UNIFIED EUROPEAN MARKET AFTER 1992 FOR OIC MEMBER COUNTRIES : OPTIONS AND RESPONSE

M.A. Mannan*

BACKGROUND AND OBJECTIVES

The 19th Islamic Foreign Ministers' Conference held in Cairo, Arab Republic of Egypt, from 9-13 Muharram 1411H (31 July to 4 August, 1990) through its Resolution No. ICFM/19-90/EC-23 "requests the General Secretariat in Coordination with Ankara Center and Casablanca Center to undertake a periodical in-depth study and also requests Islamic Development Bank to carry out a similar study on the Economic and Social Repercussions of the establishment of a unified European Market on the Islamic World". The Twentieth Islamic Conference of Foreign Ministers, held in Istanbul, Republic of Turkey, from 24-28 Muharram 1412H (4-8 August 1991) Resolution No. ICFM (20-91)EC (DR-2/REV.2) also requests the Islamic Development Bank (IDB) to carry out this study incorporating appropriate ideas to overcome the difficulties that may arise therefrom in the light of international developments.

Against this background, the present study seeks to analyze the possible effects of the Single European Market (SEM) by 1992 and to identify some of the key policy issues, sectoral concerns and possible economic and social repercussions for the member countries of the Organization of Islamic Conference (OIC). It is, however, felt that the integration of the SEM should be seen within the broader framework of the changes that are taking place in Eastern Europe and the USSR. As such this study also intends to examine the possible economic effects of this transformation for Islamic countries with an indication of policy options and reorientation strategy at an operational level. In this study, the policy approach is adopted at the macro-level, especially at

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the level of major groups of countries. At this stage, it would be difficult to pinpoint the actual magnitude of the possible effects of these changes and challenges as they are very diverse and complex and as they affect the mobility of various factors of production as well as the flow of trade, capital investment, labor migration, aid and technology transfer in several ways. This report will, therefore, deal primarily with the potential effects of the flow of trade, investment diversion and migration restriction on the various sectors of the economies of Islamic countries in particular and Third World countries in general.

This study will first deal with the problems of the internal and external adjustments of the Single European Market by 1992 and the Eastern European and USSR transformation towards a market economy. The emerging issues and sectoral concerns for Third World countries in general will then be identified. Next, an attempt will be made to provide a broad picture of the structure and characteristics of foreign trade relations between the EC and the OIC as well as of trade among OIC member countries. The objective of this attempt is to better understand the possible implications of the emergence of a new Europe and to build up an in-house strategy at the OIC level. Lastly, the question of possible options and responses in the form of a set of suggestions and recommendations at the OIC Community level will be discussed in detail, and will be followed by concluding observations.

THE GREAT TRANSFORMATION IN EUROPE AND ITS GLOBAL IMPLICATIONS

At this stage, it is important to say a few words about the nature of the change and the challenges of a unified Europe which may have far-reaching political, social and economic implications for the entire world. It appears that the concept of economic freedom has made a fundamental breakthrough in Europe. This is evident not only from the prospect of a Single European Market by 1992, but also from the transformation of the centrally planned economies of Eastern Europe and the USSR that is currently taking place. A widening of the EC is also evident from the fact that on October 22, 1991, the European Economic Community (EEC) and the European Free Trade Association (EFTA) reached an historic agreement on the world's largest common market, a 19-nation European Economic Area (EEA). From January 1, 1993, the newly-formed EEA will offer limitless access to its members with a market of some 380 million consumers. It is the biggest and the strongest integrated economic area in the world as explained in Appendix I. Furthermore, the ideas of the Conference on Security and Cooperation in Europe have taken on concrete form-much faster than expected, and the frontiers between East and West with its bloc system also seem to be losing their significance faster than, previously, could have been imagined. Europe is gaining in importance and autonomy in development and pragmatism is replacing ideologies. The failure of the centrally-planned economic system became increasingly evident.

The traditional Soviet-style socialist economic systems which had caused production inefficiencies, sectoral imbalances and internal and external deficits are at present undergoing varying degrees of economic liberalization. The recent pursuit of economic as well as political reforms by the USSR and Eastern Europe has also, to some extent, underscored the urgent need for economic liberalization in planned economies in Asia and Africa, which have long been dependent on the USSR and Eastern Europe for most of their trade and capital requirements. It is virtually impossible to predict the pace, scope and consequences of these reform movements. The processes involved are too diverse and complex. The problems of economic adjustment and the risk of friction must not be underestimated. This is particularly true for Eastern European countries whose domestic markets, previously isolated and controlled, are now exposed to the price signals prevailing in world markets, causing structural problems and painful adjustment for both individuals and the economy as a whole. But the fact is that "policymakers in the planned economies now face considerable difficulties in designing economic liberalization measures. First, the successful transformation of a planned into a market economy has no historical precedent. Second, liberalization experiences elsewhere highlight the point that governments should not undertake all liberalization measures simultaneously. Reform measures can fail and even exacerbate the existing crisis, if sequencing is wrong".'

The fact is that there is a simultaneous need for macroeconomic stabilization and systematic reform. Everything on the reform agenda of Eastern Europe and the USSR can be considered urgent. At issue are questions about how best to manage the transition and the sequence of measures that would lead to a strong and market based supply response to sustainable growth.

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1. Asian Development Bank Outlook, Asian Development Bank (ADB), Manila, Philippines, 1991, p.26.

The wave of liberalization, privatization and decentralization may result in a, gradual shift in the direction of trade between East and West to the disadvantage of Islamic countries in several ways. The East-West intraindustrial division of labor may be stimulated by geographical closeness, external economies and wage differentials. Owing to a relatively wide network of state-supported educational and research institutions, the Eastern European need for technical assistance is also less intensive and extensive and its prospects of intra-industrial division of labor better than those of Third World countries.

Though economic reforms depend on political developments, the process of change appears to be irreversible. For Eastern Europe and the USSR, there are also military budget savings (the peace dividend) and the West is well disposed to supporting economic reforms in the USSR. "The main stumbling blocks are, however, the decentralization of power and the issue of the private ownership of the means of production. Nevertheless, the increased competition resulting from the shift towards a market economy would profoundly affect the pattern of ownership of the means of production. In this context, it is important to note that "one of the major lessons to be learned from China's experience is that decollectivization and privatization of agriculture can lead to a tremendous increase in output" .[2]

Hence, it appears that economic reform in Eastern Europe and the USSR may lead to a substantial increase in output in the 1990's particularly in the agricultural sector and promote the intensive mobility of goods, services and production factors. An evaluation of the economic impact of these changes on Third World countries is very difficult. Yet, it seems that there will be an increase in specialization among producers in Western and Eastern Europe and the USSR, affecting the established hierarchy of preferences and privileges, industrial organizations, the environment, consumer protection, the exchange rate systems, etc. In addition, the recognition of the failure of the centrally planned Autarki model supports a move towards a broader European Community and a perceived trade-off favoring Eastern European countries

2. Ibid., p.27

against Asian, Latin American and the poorest African countries. October 19, 1992.[3]

Thus, the consequences of the opening up of Eastern Europe to western industrialized nations and the rest of the world go far beyond the question of "aid". For the western industrialized nations, this means not just more capital investment, more financial aid and more labor mobility, but above all more personal commitment by multinational companies, as reflected in the flow of investment of venture capital, management and training know-how. Even if the economic structure of Greater Europe is still emerging, the future role of the Soviet Union remains unsettled and it is clear that the process of decentralization in the USSR may eventually lead to the establishment of a few autonomous and independent states. Thus, the EC as a model has won a de facto victory in Europe. The irreversible process of economic transformation has begun in Europe with its global implications. The key problem for Islamic countries is how to make a unified response to the adverse effects of this transformation and to manage this uncertainty.

EMERGENCE OF A SINGLE EUROPEAN MARKET BY 1992

It should be pointed out, that the single internal market of the European Economic Community by the end of 1992 would be inconceivable without accompanying efforts to secure greater economic and social cohesion within the Community.

In a way `Europe 1992' is not such a dramatic enterprise in the sense that EC members committed themselves to take steps towards the creation of economic union, more than 30 years ago (for the original six) by signing the Treaty of Rome on January 1, 1958 (as summarized in Appendix H). "The new impetus derives principally out of the approval of the Single European Act in 1987, which sets the 1992 target, and the adoption of qualified majority voting within the council in place of the previous unanimity requirement. Despite this impetus, considerable work will be required to put this Act into practice. This is evident from the fact that the EC Commission is now in the process of issuing at least 279 directives designed to remove existing barriers.

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3. Serjio Alessandrini, "Systematic Changes in Europe and Economic Implications for LDC's", European Journal of Development Research, Vol. 2, No.2, Frank Cass, London, December, 1990.

Even if all of these are approved by 31 December 1992, they will have to be incorporated into the national laws of each of the 12 member states"October 19, 1992".[4] At the implementation level, bureaucratic adjustments and appeals by aggrieved companies and people to the European Court of Justice in Luxembourg, may not be completed by 31 December, 1992. As such, it may not be possible to make a detailed analysis of how specific measures will affect a particular Islamic country. What perhaps is possible now is to identify the types of micro and macro effects most likely to affect particular groups of countries.

"Take, for example, the common agricultural policy (CAP). At present, despite its name, there is no common policy in the sense of uninhibited trade within the Community. A highly complex system of special exchange rates and border taxes has grown up to enable some governments to pay their farmers more than others. The removal of border controls as part of `1992' will render some of the existing controls inoperable. The EC's response to this new circumstance is likely to include the closer alignment of member states' prices. This price adjustment could be upwards (which might tend to increase EC output) or downwards (with output declining); in either case, the effect on food importing and exporting in Islamic countries could be substantial"?

Similarly, if border controls are removed within the Community, it may lead to progressive dismantling of impediments to labor movements within the Community. It is likely to involve additional restraints on migrant workers from Islamic countries, such as Turkey and the countries of North Africa.

The impact of the dismantling of direct controls on trade, the removal of indirect barriers, and a program for monetary union would result in a number of critical issues having serious implications for OIC member countries in several ways.

As stated earlier, the European Community's economic integration is expected to deepen the economic division *vis-a-vis* third party countries, including all Islamic countries, and is expected to increase the tendencies

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4. C. Stevens, "The Impact of Europe 1992 on the South", I.D.S. Bulletin, Vol. 21, No. 1 Sussex, January, 1990.

5. Ibid., p.50.

towards protectionism. "In addition, companies and workers negatively affected by disinvestment and internal competition may ask for protection from abroad. The abolition of border controls and non-tariff barriers will, it follows, inevitably put outsiders at a disadvantage. The trade diversion effect, in particular, could be harmful to some third party countries, while the suppliers from member states will enjoy easier access to their partners' markets. The harmonization of technical rules and standards and the local product content requirements are other examples of harmful effects that increase the protection of the domestic market".'

The spread in the number of goods and services for which there are demands for higher standards would create serious informational problems particularly small or poor ones for whom the fixed informational costs are higher relative to the actual or potential trade flow. New entrants will suffer because the act of setting standards increases the barriers to entry. Developing countries will suffer because many of the products to be regulated are among their exports: toys, fireworks, plants, fruit and vegetables, fish and shellfish, and meat.'

It may be noted here that until all goods are free of barriers, every shipment is expected to be checked only to ensure that it does not come under one of the remaining controls this means delays procedures and the result may create a barrier to entry at least in the short-run. This potentially, has large trade diversion effects. These controls may help large outside suppliers who supply several EC countries. This will put small suppliers at a disadvantage, constrained by the high cost of transits and transhipment. A recent report compiled by the 101-member General Agreement on Tariffs and Trade (GATT) indicated that some 50 bilateral trade pacts already restricted imports in textiles, cars, steel, electronics and shoes, often from competitive foreign suppliers and thereby distorting competition. If this approach is continued after 1992, the result would be a major threat for a multilateral trading system which is founded on the principles of nondiscrimination, transparency and undistorted competition.

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6. Sergio Alessandrini, op.cit., p.204.

7. Shela Page, "Why is 1992 Different?", European Journal of Development Research, Vol. 2, No.2, Frank Cass, London, December, 1990, p.237.

A complex hierarchy of preferential arrangements has already evolved, some with blocks like the six nation European Free Trade Association and others with developing nations. The EC, the world's largest trading block which accounts for one-fifth of global commerce, is moving towards closer integration among its member states. If this is not matched by a parallel lifting of external barriers, it would hit heavily-indebted Islamic countries as well as Eastern and other East and Central European nations.

For example, EC farm policy - stimulate Community output via price supports and subsidize exports, - has distorted competition in a number of world markets. Protection of the EC textiles and clothing industry through 19 bilateral agreements curbing imports also imposed a heavy cost on EC consumers and foreign suppliers. It is estimated that the cost to consumers of protecting one worker's job in the Community's textiles and clothing industry was more than three times his wages.

GATT also reported that, the EC was one of the "most intense users" of measures to protect produce against foreign imports that it considered had been "dumped" at unfairly low prices. Between 1980 and 1989, it implemented 256 anti-dumping actions, of which 120 were in force in 1989. In most of these cases, foreign exporters agreed to raise their prices, and in others anti-dumping duties were imposed on the offending imports. If this trend continues, and it is expected to continue after 1992, it would certainly put exporters from developing countries at a disadvantage.

The Single European Market (SEM) has its impact on factors of production. The removal of formal internal restrictions on the mobility of labor and capital, may relax domestic regulations or standards. The EC is also moving towards monetary and fiscal coordination and/or union, reinforcing other improvements in market functions. In trade related services, these changes could lower the cost of all trade, if the removal of capital controls and monetary union fiscal harmonization via Value Added Tax (VAT) promotes more efficient financial and other markets.

Furthermore, the creation of the SEM in 1993 and the opening of formerly centrally planned socialist economies are likely to affect the magnitude and direction of Foreign Direct Investment (FDI) flows in the next decade. FDIs have become an increasingly important source of capital for most Islamic countries due to the reduction in commercial bank lending which followed the emergence of the 1982 debt crisis. The contributions which can accompany FDIs in terms of technology, management skills and access to markets have also been recognized by many developing countries in recent years, leading to a reshaping of the regulations affecting such flows. Furthermore, economies of scale in information on investment opportunities abroad could increase the level of Community FDI. Joint efforts to promote FDI in some regions (such as ASEAN) could lower the risks to investing firms through a Community investment guarantee instrument. On the other hand, the complete liberalization of infra-EC capital movements, together with incentives given for intra-Community firms to cooperate, could divert FDI in favor of the EC regions which currently have the most barriers (the southern countries of the Community)! Thus, structural changes that are taking place within Europe are likely to affect the least developed and developing Islamic countries adversely.

However, in order to attract direct foreign investment, what perhaps is needed is not a short-term special incentive package but a long-term agreement on the basis of sharing and participation in joint venture and equity projects. The special incentive schemes that include tax incentive, simplification of formalities and procedures, repatriation of profit and guarantee against non-economic risks should facilitate the implementation of joint venture projects.

POTENTIAL EXTERNAL EFFECTS

From the preceding discussion, the potential external effects of 1992 can be summarized in Table 1:[9]

The net direct trade impact on the outside world will be the result of interaction between positive and negative effects. To the extent that 1992 removes barriers between EC national markets resulting in faster economic growth. This may result in increased EC imports and will tend to increase the competitiveness of domestic supplies relative to imports. So the share of the EC market supplied by imports may decline. Whether or not the absolute level

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8. Alessandro Pio, "The Impact of the 1993 Single European Market on Investment Flows between the European Community and Developing Countries: The case of Latin America", European Journal of Development Research, Vol.2, No.2, Frank Cass, London, December 1990, p.22.

9. C. Stevens, op.cit., p. 52.

of imports falls depends upon whether this trade diverting effect is larger or smaller than the trade creation of faster EC economic growth. Similar considerations apply to the effects on Foreign Direct Investment (FDI) as mentioned earlier. There exits dispute among economists on the scale of the direct effects.[10] But for most Islamic countries, the indirect effects, resulting from EC political decisions, may prove to be the more important because they will influence the distribution of benefits and costs between states outside the Community.

Table 1

Potential External Effects of 1992

Positive	Negative
Trade Creation (**from** faster EC **growth)**	Trade diversion (lower costs of EC products)
Less protectionism (no national NTBs)	More protectionism (more severe Community NTBs)
More liberal trade policy (majority voting)	Less liberal trade policy (to alleviate social costs)
Investment creation (from faster EC growth)	Investment diversion (increased attractions of EC)
More cost effective aid (EC-wide procuring tying)	Lower total aid budget (less commercial incentive) (increased social fund demand)
Easier migration (removal of national barriers)	More restrictive migration (reinforcement of EC barriers)

Note: NTBs = Non Tariff Barriers.

Depending upon the strength of their political relations with EC states, some countries may be more and others less protected from the adverse effects of 1992. Moreover, apart from the New Industrialized Countries (NICs), most Third World countries will be less affected by the overall dynamics of the EC

10. Netherlands, Proceedings of Conference "Europe 1992 and the Developing Countries" organized by the Netherlands Ministry of Foreign Affairs, The Hague, 6-7 October, 1990.

economy than by changes to the markets for specific products which represent a large bulk of their exports. Countries exporting mainly primary products will tend to be less affected (positively or negatively) than those, exporting manufactured goods due to various factors (i.e., higher standards, etc). "Because of the generally higher income elasticity of demand for manufacturers, they will be more affected by the trade creation of faster EC growth, but they are also more vulnerable to trade diversion (whether from more efficient European production or from protectionism)"."

ISOLATING THE EXTERNAL EFFECTS OF 1992 ON A REGIONAL BASIS

At a macro level the potential external effects of 1992 show that a major restructuring by one of the principal traders and investors in the world economy will have the following significant effects on other countries:

a) The sectoral effects.
b) The macroeconomic effects.
c) The effects of the removal of indirect barriers involving various legal and administrative measures as part of the process.
d) The microeconomic effects of the reorientation of the EC and its members with other countries.

In this context, using the methodology of measuring trade creation and diversion effects, an analogy could be extended to `investment creation' and `investment diversion'. This analogy may not apply when it is extended to labor, because the mobility of labor is unlikely to be as acceptable as that of capital or even goods. "Besides, it would be too complex and time-consuming to analyze the impact of the changes following from 1992 by policy change by country or by economic sector one-by-one and by specific product or by specific factors of production. The objective of 1992 (in contrast to those of the Treaty of Rome) is not just to remove obstacles, but to create a new type of market and to ensure its efficient functioning. To discuss its effects in

11. C. Stevens, op.cit., p.53.

conventional terms risks underestimating both the case-by-case results and the broader impact of the process."12

Therefore, at this stage, it would be useful to show the broad impact of 1992 on major Groups of Countries as summarized in Table 2 below.'

Table 2

Potential Effects of 1992 for Different LDCs

Country Group	**Potential Effects**
NICs, MICs (e.g. East Asia, ASEAN)	Increased protectionism
Mediterranean (e.g. Algeria, Morocco, Tunisia)	Trade diversion Investment diversion Migration restriction
Latin America	Investment diversion Increased protectionism
Africa, Caribbean, Pacific (ACP)	Trade diversion Investment diversion

In this context, it may be mentioned that currently the EC has two tiers of non-tariff barriers (NTBs) to imports: Community-wide barriers, plus additional national restrictions imposed by a number of member states on some products from certain countries as permissible under Article 115 of the Treaty of Rome. This Article is expected to be inoperative as part of the 1992 exercise.

One set of illustrative figures is provided in Table 3, which lists the requests for protection under Article 115 approved by the Commission during the period 1979 to 1987 according to the requesting country.[14] The list is an incomplete one, since there is a variety of other ways through which states can

12. Sheila Page, op.cit., p.237.

13. Op.cit., C. Stevens, p.53.

14. Sapir, A., "Does 1992 Come before or after 1990 ?", CEPR Discussion Paper No. 313, London, 1989.

impose national controls, notably `voluntary' export restraint (VER) agreements which are sometimes even negotiated on an industry-to-industry rather than government-to-government basis.15

Nonetheless, the table provides a useful insight into the relative incidence of national restrictions. It suggests that states that export primarily to France, Ireland and Italy have more reason to be worried about possible increased competition from the NICs and other third party exporters than do countries exporting primarily to Germany/Denmark or having a broad geographical spread.

Table 3

Article 115: Case Acceptances by Member State, 1979-87

	1979	1980	1981	1982	1983	1984	1985	1986	1987	Total
Benelux	44	25	17	19	22	14	4	0	1	146
Denmark	3	4	0	0	0	0	0	0	2	9
France	124	105	80	85	57	39	66	67	62	685
Germany	6	1	2	2	4	0	0	0	0	15
Greece			0	0	0	0	0	0	0	0
Ireland	33	57	32	26	48	59	57	45	52	409
Italy	17	23	23	29	37	34	30	20	23	236
Portugal								0	1	1
Spain								4	13	17
United Kingdom	33	7	12	13	20	19	9	5	3	122

Source. Sapir 1989.

Table 4 rearranges the data according to the type of product for which Article 115 restrictions have been requested.[16] Overwhelmingly, the most important product is textiles (including clothing) due to the most extensive set of national quotas, negotiated under the framework of the Multifibre Agreement (MFA).

15. Pelkmans, Jacques, "The European Community's Trade Policy towards Developing Countries", in Christopher Stevens and Joan Verloren van Themaat (eds.), Europe and the International Division of Labor, Hodder and Stoughton, London, 1987.

16. Sapir, A., op.cit.

Table 4

Article 115 Case Acceptances, by Product Category, 1979-87

	1979	1980	1981	1982	1983	1984	1985	1986	1987	Total
Textiles	199	164	120	116	131	120	119	102	105	1176
Other manufactures	59	53	43	52	49	37	45	36	49	423
Agricultural Products	2	5	3	6	8	8	12	3	3	50

Source: Sapir 1989.

One element in the EC's negotiating agenda is how to cope with the removal of national quotas. For most developing countries, the crucial feature of the successor regime is the overall size of any global quota.

The fact is that the EC will be taking decisions as part of the 1992 program which will affect the interests of Islamic countries. At present, the precise implications are uncertain. But, when the EC Commission does table detailed proposals, the window of opportunity for third parties to influence the decision is both limited and wide open at the same time.

The scope for influence is limited in the sense that, since it is an autonomous European affair. Their scope for influence is centered on **any** concurrent negotiations in which they are legitimate parties. These include the GATT Round of multilateral trade negotiations, the renegotiation of the Multifibre Agreement, and the EC's next Generalized System of Preference. Therefore, a start must be made now to identify those items on the agenda of potential significance to various Islamic countries and groups, to monitor their progress and to seek out opportunities for influence. Again, the scope of influence is wide in the sense that it provides a great opportunity to develop the internal capacity of the OIC Community through joint Islamic economic action.

In this context, it is important to mention that a positive effect in trade negotiations produced in the Uruguay Round may be relevant to what the experience of negotiating 1992 can offer the Third World in general and Islamic countries in particular. In this regard, the EC already has, and continues to gain, much more experience than others in introducing new areas into trade negotiations by encouraging countries to accept that previously `purely national' parts of the economy, services, investment incentives, subsidies with international effects and government procurement, are now legitimate areas for international concern.

EMERGING SECTORAL ISSUES AND AREAS OF POLICY CONCERN

The preceding discussion of the potential effects of diversified changes in economic and social fields has been able to identify some critical areas of sectoral concern for Third World countries which includes all Islamic countries. What is needed, however, is a balanced perspective and a discussion of the issues and problems on both sides of the EC's borders.

The identified areas of sectoral and policy concern are as follows:

INDUSTRIAL SECTOR AND FLOW OF TRADE

The EC's new approach will mandate minimum set of industrial standards and then require member countries to recognize other EC countries' standards.

Thus for example, the elimination of 12 separate standards and requirements allows Europe-wide marketing. But new European standards could exclude foreign products from all EC countries. Clearly, standards can become barriers to trade. The Commission has identified several high priority areas for the harmonization of standards, including motor vehicles, tractors and agricultural machines, food industries, pharmaceuticals, chemicals and construction.

Restrictive rules of origin and local content requirements are also emerging as issues of concern to Third World countries exporting to the EC market. The adoption of a restrictive import policy, export subsides and anti-dumping action among others seems to justify this criticism with respect to the higher degree of processing required for a product to be considered `European' and, thus, eligible for duty-free circulation within the EC. This is a typical example which has fuelled the current belief that after 1992 a `Fortress Europe' will emerge, denying foreign partners entry into the single market. "A real danger in the coming years is that protectionist policies will become stronger in the three trading blocs crystallizing round the USA, Europe and Japan. Such policies might not only lead to trade wars between those blocs themselves. They would also be very damaging to the poorer countries of the Third World, in so far as these were still trying to export to the industrialized world or were still being required to do so in order to pay off their debts"." However, the prospects for the future of EC external relations with Islamic countries have to be analyzed in terms of competitiveness, not preferences, which determines the volume of market penetration at least in some industrial sectors where, in the past, the trade policy has been more an attempt to adapt the preferential agreements existing before the various enlargements of the EC. Now the whole system of preferences is being questioned.

AGRICULTURAL SECTOR AND FLOW OF TRADE

The Common Agricultural Policy (CAP) instituted in 1962, has , allowed the EC to become more than self-sufficient in many agricultural commodities and has provided more stable incomes to the European farming population. The CAP today, however, consumes some *70%* of the EC budget, and through its complicated network of protection, price supports and subsidies, has created large surpluses of many agricultural products. EC export subsidies, used to dispose of some of these surpluses, have helped to create a distorted and unstable market in agricultural commodities displacing some third-country farm exports.

The single market program will have only a small direct effect on the CAP. The harmonization of agricultural health rules for animals and plants will reduce barriers to trade among EC member countries. As the Community eliminates border controls, it must act on the taxes or subsidies levied at the frontier on agricultural trade. Furthermore, monetary harmonization should result in the elimination of the special agricultural exchange rates which have also served to protect markets from intra-EC competition.

"Agricultural subsidies represent an area of major concern for both developing countries and Eastern Europe. World farming subsidies averaged $246 billion a year in the three years 1984 to 1986. The chief offenders are the richest countries. The chief sufferers are the poorest countries. Between 1980 and 1986, farm subsidies rose from 15% to 35% of farmers' income in

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17. J. Robertson, Future Wealth, Cassell, London, 1990, p.74.

the USA, from 36% to 49% in the EEC, and from 54% to 75% in Japan. The resulting reduction in food imports into those countries and the resulting increase in the export of food surpluses from them at low prices have reduced export markets for agricultural products from many Third World countries and - even worse - have seriously damaged their rural economies by reducing incentives for domestic food production".[18]

EC GOVERNMENT PROCUREMENT POLICY

The annual value of government procurement in the EC is estimated at about $550 billion. of which roughly 20% is subject to open tendering and only 2% awarded to nonnational firms. The substantial opening of EC procurement practices by the end of 1992 is expected to extend competition into the telecommunications, water, energy, and transport sectors. It also has proposed to improve the remedies open to suppliers who believe that the contracting authority has violated their Community right to bid. An EC restrictive content rule of origin will be the likely vehicle used for limiting third-country competition.

FLOW OF CAPITAL AND DIRECT FOREIGN INVESTMENT

This issue has already been discussed in some detail, its impact on Islamic countries by regions will be dealt with later.

MOBILITY OF IMMIGRANT WORKERS

The Single European Act of 1985 is designed to realize the internal market, to ensure the free movement of goods, persons, services and capital. It is generally accepted that the controls at the borders of each member State will be abolished for Community citizens and that, presumably, residence controls will be abolished as well. Matters relating to the free movement of persons remain subject to the <u>unanimity rule</u> which has been exempted from the rule of qualified majorities. This rule is not intended to extend the freedom of movement for workers, entrepreneurs, etc. to noncitizens of the Community.

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18. J. Robertson, <u>op.cit.,</u> p.74.

The Single European Act leaves third-country immigration matters firmly in the hands of each of the 12 EC members. Another area where the lack of unified rules is causing concern is the access of immigrant workers to public sector jobs, certain restrictions resulting from excessively lengthy procedures and other administration conditions affecting the family reunification of immigrant workers (i.e., housing, employment requirements, etc.). This is indeed a serious area of concern for Islamic countries.

THE WIDENING OF EC FRONTIERS: EXTENDING THE SCOPE OF HORIZONTAL INTEGRATION

The EC by the creation of the Single European Market, is not only intensifying its vertical integration but is also in the process of expanding its borders (horizontal integration). Turkey, Austria and Sweden have applied for full membership to the EC. EFTA countries have recently signed a treaty with EC with a wide coverage. Last but not the least, some Eastern European Countries (especially Poland, Czechoslovakia and Hungary) have stated their inclination to apply for EC membership at some point in the future. They have received a positive response from some of the EC countries.

Therefore, evolution in Eastern Europe has cast an entirely new light on the future of Europe. EC market integration and expansion will remain a serious cause for concern for the OIC Community. What is then needed is a common negotiating platform at the OIC level.

At this stage, it is important to point out that the political aspects of economic integration in Europe have profound implications for Third World countries as explained below.

NATIONALISM AND ECONOMIC INTEGRATION OF EUROPE

The political challenge of economic integration arises from many historical instances. Trade follows the flag. History repeats itself. Therefore, as all of Europe is passing through a period of tremendous political and economic change, the classic bipolarity dividing the continent along capitalist and communist lines is no longer valid. The demise of the Soviet Union as a military and ideological threat will substantially alter the old security arrangements. It is likely that there will be a new NATO appropriate to the priorities of the EC.

One possible political and global security arrangement is to replace the current multipolar system with a new tripolar United States of Europe comprising the EC, the United States of America and Japan. After the changes in the USSR and the Gulf, USA enjoys unique military prestige without any serious opposition. The EC will become the new superpower through its economic integration and possible political union.

One of the gloomiest possibilities is the rise of a hegemonic division of the world by which integrated Europe may seek to dominate the Muslim countries of the Middle East and North Africa, its neighbors outside the continent.

There is also a danger of various forms of parochialism in Europe. There are ardent nationalists among the EC leaders who may come up with a slogan of `Europe for Europeans' only. Once fiscal and monetary unity is achieved through a single currency the EC may become more inward looking.

With Portugal, Greece, Spain and Ireland, having less developed economies compared to other members, the EC has a "North" and "South" problem of its own. The poorer members of the EC will not like cheaper competition from North Africa, the Middle East and other Muslim countries. The weaker economies are likely to gain more by the anticipated monetary unification **through** a single currency.

As Europeans prepare for unity in 1992, nationalism has been rising with an accompanying upsurge in racially motivated attacks on `foreign workers', especially from Turkey and North Africa (Algeria, Tunisia and Morocco), which, despite tightened laws and more carefully controlled borders, are willing to send thousands of immigrants to the Mediterranean's north shore.

To the extent that the EC moves towards helping Europe and the USSR, its commitments towards the Muslim countries of the Third World is likely to diminish. In broad terms, the interactions between the EC and the Islamic World will be a replay of the contradictions between the developed countries and the LDC's.

These issues and areas of concern are by no means exhaustive. A close review of these key issues will, however, generate an agenda for collective action at the OIC level. In the subsequent section, these issues will be examined in some detail in light of the existing realities of Islamic countries.

STRUCTURE AND PATTERN OF TRADE RELATIONS BETWEEN THE OIC AND THE EC

Since the flow of trade affects the various sectors of the economy of Islamic countries, it is perhaps in order to explain very briefly the nature and structure of the trade relationship that the EC has with the OIC Community.

OIC/EC trade relations are largely governed by various agreements concluded either bilaterally by member states or collectively in the case of regional groups such as ACP (Africa, Caribbean Islands and Pacific), GCC (the Gulf Cooperation Council) and ASEAN (Association of South East Asia Nations).

There is a need to develop a common strategy at the OIC level in dealing with the EC. Despite the fact that the EC claims to have a global approach reflected in the Lome Convention, and in so called Mediterranean agreements, it has developed its own unique pattern of trade relationship. The diversified pattern of trade relationship may be summarized as follows:

- 26 Countries concluded preferential agreements with the EEC; 11
- Countries have signed cooperation framework agreements;
- 7 Countries have not yet concluded any bilateral agreements for their trade relations with the EC as per details below:

Preferential Trade Agreements Algeria, Benin, Burkina Faso, Cameroon, Comoro Islands, Egypt, Djibouti, Jordan, Gabon, Gambia, Guinea Bissau, Lebanon, Mali, Morocco, Mauritania, Niger, Senegal, Sierra Leone, Somalia, Sudan, Syria, Chad, Tunisia, Turkey and Uganda.
Non Preferential Trade Agreements Saudi Arabia, Bahrain, Bangladesh, Brunei, United Arab Emirates, Indonesia, Kuwait, Malaysia, Oman, Qatar and Yemen.
No Agreement Afghanistan, Iraq, Iran, Libya, Maldives, Pakistan, Palestine.

Source: Houki ICDT (1991).19

19. Zine El-Abidien Houki, "The Trade Relations between the EEC and the Members of the OIC", ICDT, Casablanca, (1991).

As regards the structure of the OIC's foreign trade, it may be noted that in 1988, imports mainly consisted of capital goods, which came first with 32.3% of the total, followed by manufactured products with 27.5%, food products and fuels, with a share of 16% and 13,5%, respectively, as seen below:

1988 IMPORTS PER MAIN CATEGORIES

Machinery & transport equipment	32.3%
Other manufactured products	27.5%
Agricultural & food products	16.0%
Fuels	13.5 %
Textiles	6.0%
Others	4.7 %
Total	100 %

At the exports level, ten products or groups of products account for 72% of the OIC's exports. The first position is held by fuels which account for 54.4% of the OIC's exports and represent 39% of the world exports of this product. The nine other products are wood, yarns and threads, articles made of material and hosiery, electric and electronic equipment, rubber, fruit and vegetables, fishing products, fertilizers and raw cotton. Table 5 classifies countries according to the relative importance of their exports of these products.

Table 5

Relative Importance of OIC Countries' Exports of Ten Major Products

Fishing Products	Fruit & **Vegetables**	**Rubber**	**Wood**	**Callon**
Indonesia	Turkey	Malaysia	Malaysia	Mali
Morocco	Morocco	Indonesia	Indonesia	Beak
Mauritania	Iran		Gabon	**Chad**
Bangladesh	**Egypt**		Cameroon	**Sudan**
Senegal	Indonesia			Burkina **Faso**
Malaysia	Afghanistan			**Syria**
Tunisia	Tunisia			**Egypt**
				Cameroon
				Iran

Yarns & Threads	**Ready To Wear**	**Fertilizers**	**Fuel**	**Electric & Electronic Equipment**
Pakistan	Bangladesh	Tunisia	Saudi Arabia	Malaysia
Egypt	Tunisia	Morocco	Iraq	Turkey
Bangladesh	Turkey	Turkey	U.A.E.	Tunisia
Turkey	Morocco	Jordan	Iran	Indonesia
	Pakistan	Indonesia	Algeria	Saudi Arabia
			Indonesia	
			Libya	
			Kuwait	
			Malaysia	
			Oman	
			Brunei	
			Qatar	
			Bahrain	
			Syria	
			Gabon	
			Egypt	
			Tunisia	

Source: Houki ICDT (Oct. 1991)[20]

OIC/EC TRADE

The EC is the first trading partner of the OIC. In 1988, it represented 26.9% of its exports and 35% of its imports. These percentages varied from one area to another. Table 6 gives a geographical distribution of trade between the EC and the OIC by major, groups of countries in terms of absolute numbers as well as percentages.

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20. Houki, ICDT., op.cit., (1991).

Table 6

The Trade Between the EC and the OIC by Major Group of Islamic Countries

(in Million US$)

	1975			**1988**		
COUNTRIES	World	EEC		World	EEC	
IMPORTS	US$	US$	%	US$	US$	%
Maghreb	13,646	8,706	63.8	25,850	15,820	61.2
Africa **S/** Sahara	2,363	1,526	64.6	1,526	2,807	58.8
Middle East	11,384	4,759	41.8	30,202	11,235	37.2
G.C.C.	11,518	3,686	32.0	42,581	14,562	34.2
Asia	12,401	2,480	20.0	43,257	6,921	16.0
TOTAL	51,312	21,157	39.6	126,276	51,345	35.0
EXPORTS						
Maghreb	13,698	7,260	53.0	23,664	16,092	68.0
Africa S/Sahara	2,967	1,584	53.4	4,727	2,269	48.0
Middle East	31,086	11,595	37.3	25,760	9,686	37.6
G.C.C.	50,126	17,895	35.7	51,661	7,388	14.3
Asia	33,671	1,751	5.2	62,633	9,959	15.9
TOTAL	131,548	40,085	30.5	168,445	45,394	26.9

Source: Houki, ICDT 1991.21

The above table shows that Maghreb and Sub-Saharan Africa are the main trading partners with the EC, followed by the countries of the Middle East other than those of the GCC. Asian countries more than trebled their exports between 1975 and 1988. Concerning imports, the overall downward tendency did not affect the GCC, whose exports dropped to 14.3% from the level of 35.7% in 1975. However, while the EC accounts for an important share of the OIC's foreign trade, the OIC represents only 4% of the foreign trade of the EC. Therefore, the OIC is only a complementary market for the

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21. Houki, ICDT, op.cit., (1992).

EC, while for a number of OIC countries, the European Market is an outlet and a supplying source of major importance.

STRUCTURE AND BASIC CHARACTERISTICS OF TRADE AMONG ISLAMIC COUNTRIES

At this stage, it would be useful to say a few words about the structure and basic characteristics of trade among OIC member countries to better understand the effects of the SEM. The IDB's Annual Reports clearly show that while a significant impetus for cooperation and integration among Islamic countries comes from the volume and intensity of the trade flows among them, owing to the lack of complementarity among their economies and the inadequacy of infrastructure, and other traditional constraints, intra-trade has not reached a satisfactory level although member countries share certain common characteristics with regard to the direction and commodity composition of their foreign trade.

Table 7 shows the share of primary products in total exports in 1988. With few exceptions, primary products account for more than 50% of the total exports of member countries. The share of primary products in imports varies considerably between countries depending on their food imports. However, the degree of concentration of their imports on manufactured goods is relatively higher, exceeding 80% in many countries.

Since member countries are exporters of primary products, their export earnings are quite volatile as a result of swings in demand and resultant price changes. What is needed is the diversification of the member countries' commodity structure, as well as the geographical concentration of their trade in their traditional market through the promotion of nontraditional exports, the development of manufacturing capacities, the penetration of new outlets, etc. The Promotion of intra-trade has considerable potential in this context. The growth in the output and export of developing countries and member countries is closely correlated with economic activities in industrialized countries. Any slowdown in the economies of the latter is reflected in the economies and export performance of OIC member countries.[22]

22. 15th IDB Annual Report (1989-90), p.44.

Table 8 shows that while the share in world exports of the oil-producing, low/middle income and least developed member countries was 4.5%, 2.2% and 0.3% respectively during the 1980's, their imports constituted 3.2%, 2.5% and 0.5% of world imports respectively . The share of the least developed countries in total world exports displayed relative stagnation. As a result, their comparative and competitive position vis-a-vis the rest of the world has deteriorated. Some of the least developed member countries such as Afghanistan, Burkina Faso, Chad, Mali, Niger and Uganda are landlocked countries whose major commercial cities are at least 1,000 km away from the nearest port in a neighboring country. Consequently, this detracts from any comparative and competitive advantage the country might have in certain products.

The volume of trade among Islamic countries has been persistently low in both relative and absolute terms. Intra-trade averaged around 10% of the total merchandise trade over the period 1980-89. The corresponding figure for the year 1989 is around 10.8%, as shown in tables 9 and 10. The volume of trade among these countries varies directly with their total trade, both being determined by similar variables. Member countries import most of their needs from non-member countries, specifically from industrialized countries as well as from some developing countries. If oil is excluded, the volume of intratrade would be very much less.

There are many obstacles not only to increasing trade among Islamic countries, but also to promoting the exports of goods and services to industrialized EC countries. For example, the quota restrictions against imports of textiles and garments by high income OECD countries not only restrict least developed member countries' exports and specialization, but also diminish most OIC member countries' chances of specializing in sectors in which they would have comparative advantages. The textile and garments exports of Bangladesh, Burkina Faso, Mali, Pakistan, Afghanistan, Egypt, Morocco, Tunisia, Turkey and Iran to high-income OECD countries account for more than 60% of their exports of manufactures (Table 11). A concerted effort for trade liberalization in the international arena, especially in textiles and garments, will bring extra gains through specialization and opportunities for employment in member countries. But, the export potential of OIC member countries has not been fully utilized owing to the restrictive and protectionist policies adopted by the industrialized countries that include the EC countries.

Table 7
Structure of Foreign Trade of IDB Member Countries
1988 (1408 - 1409H)

(Percentages)*

COUNTRY	EXPORTS: Fuels, Minerals and Metals	Other Primary Commodities	Textiles and Clothing	Machinery and Transport equipment	Other Manufactured Goods	All Primary Commodities	All Manufactured Goods	IMPORTS: Food	Fuels	Other Primary Commodities	Machinery and Transport equipment	Other Manufactured Goods	All Primary Goods	All Manufactured Goods
	1	2	3	4	5	6 (1+2)	7 (3+4+5)	8	9	10	11	12	13 (8+9+10)	14 (11+12)
Afghanistan	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Algeria	96	1	0	1	3	97	4	30	2	5	27	35	37	62
Bahrain	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bangladesh	2	29	-	0	69	31	69	23	10	9	20	38	42	58
Benin	36	38	-	7	19	74	26	14	31	3	16	37	48	53
Brunei	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Burkina Faso	0	98	-	1	1	98	2	19	3	4	33	41	25	74
Cameroon	53	35	1	2	9	88	12	23	1	2	35	39	25	74
Chad	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Comoros	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Djibouti	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Egypt	69	12	12	0	7	81	19	19	2	8	29	41	29	70
Gabon	59	27	-	3	11	86	14	22	2	3	36	37	27	73
Gambia	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guinea	-	-	-	-	-	-	-	-	-	-	-	-	44	56
Guinea Bissau	-	-	-	-	-	-	-	-	-	-	-	-	29	70
Indonesia	49	22	8	1	20	71	29	3	18	5	39	36	26	75
Iran	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Iraq	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jordan	43	10	5	6	36	53	47	19	16	5	23	38	40	61
Kuwait	90	1	-	4	5	91	9	17	1	2	39	41	20	80
Lebanon	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libya	99	0	-	1	1	99	2	15	1	2	33	49	18	82
Malaysia	18	37	4	26	15	55	45	15	6	5	47	28	26	75
Maldives	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mali	0	70	-	1	29	70	29	13	16	1	43	26	30	69
Mauritania	32	65	-	0	2	97	2	21	5	2	36	36	28	72
Morocco	21	29	18	2	30	50	50	12	13	17	24	34	42	58
Niger	76	20	-	1	3	96	4	21	8	10	30	32	39	62
Oman	91	2	0	5	2	93	7	15	3	2	41	39	20	80
Pakistan	1	30	54	2	13	31	69	14	19	13	28	25	46	53
Qatar	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Saudi Arabia	90	1	-	4	5	91	9	17	1	2	34	46	20	80
Senegal	25	50	3	6	18	75	27	40	12	3	16	30	55	46
Sierra Leone	21	21	-	1	58	42	59	23	8	4	19	46	35	65
Somalia	0	95	-	0	5	95	5	22	4	8	39	27	34	66
Sudan	13	80	-	3	4	93	7	7	19	2	36	36	28	72
Syria	50	25	6	3	16	75	25	17	11	5	28	39	33	67
Tunisia	19	17	30	6	28	36	64	18	7	14	22	39	39	61
Turkey	6	30	32	7	25	36	64	2	20	8	34	36	30	70
Uganda	4	96	-	0	0	100	0	6	9	2	45	38	17	83
U.A. Emirates	79	4	-	0	16	83	16	4	3	1	43	49	8	82
Yemen Rep.**	88	3	-	7	2	91	9	25	15	5	22	32	46	53

Note:
- \- Not available. The source document does not provide data for those countries with populations less than 1 million.
- * Individual percentages may not add up to 100 due to rounding.
- ** Yemen A.R. + Yemen P.D.R.

Source: World Bank, *World Development Report*, 1990 and
15th Islamic Development Bank Annual Report 1410H (1989-1990) p.45.

Table 8

Total Trade of Member Countries as Compared to that of Developing Countries and the World, 1980 - 1989

(US $ billion)

		1980		1981		1982		1983		1984		1985		1986		1987		1988		1989	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
EXPORTS	WORLD	1,895.5	-	1,853.6	-	1,720.2	-	1,681.3	-	1,786.6	-	1,811.5	-	1,978.8	-	2,353.3	-	2,707.5	-	2,912.2	-
	Developing countries	636.3	33.6	612.7	33.1	564.6	32.8	541.9	32.2	571.9	32.0	553.3	30.5	516.0	26.1	635.5	27.0	740.5	27.3	786.8	27.0
	Member countries	302.2	15.9	281.7	15.2	231.9	13.5	204.8	12.2	198.0	11.1	180.0	9.9	133.7	6.8	161.8	6.9	171.6	6.3	201.8	6.9
	A. Oil-exporting	254.9	13.4	233.8	12.6	185.5	10.8	158.4	9.4	146.7	8.2	128.4	7.1	87.6	4.4	104.2	4.4	107.1	4.0	131.1	4.5
	B. Low/middle income	41.9	2.2	42.5	2.3	41.2	2.4	41.4	2.5	45.4	2.5	46.2	2.6	40.7	2.1	51.4	2.2	56.9	2.1	63.0	2.2
	C. Least developed	5.4	0.3	5.4	0.3	5.2	0.3	5.0	0.3	5.9	0.3	5.4	0.3	5.4	0.3	6.2	0.3	7.6	0.3	7.7	0.3
IMPORTS	WORLD	1,946.4	-	1,923.4	-	1,793.4	-	1,738.5	-	1,849.7	-	1,890.3	-	2,063.7	-	2,433.0	-	2,793.1	-	3,002.0	-
	Developing countries	557.8	28.7	604.9	31.4	574.3	32.0	538.1	31.0	540.8	29.2	529.8	28.0	534.4	25.9	632.0	26.0	755.4	27.0	765.1	25.5
	Member countries	170.0	8.7	197.9	10.3	204.7	11.4	195.7	11.3	183.5	9.9	161.2	8.5	147.2	7.1	155.2	6.4	176.4	6.3	188.0	6.3
	A. Oil-exporting	103.3	5.3	122.3	6.4	132.6	7.4	122.6	7.1	107.7	5.8	88.6	4.7	77.8	3.8	77.3	3.2	91.7	3.3	97.2	3.2
	B. Low/middle income	53.1	2.7	62.3	3.2	60.4	3.4	62.0	3.6	64.2	3.5	60.8	3.2	58.1	2.8	65.1	2.7	70.6	2.5	75.7	2.5
	C. Least developed	13.6	0.7	13.3	0.7	11.7	0.7	11.1	0.6	11.6	0.6	11.8	0.6	11.3	0.5	12.8	0.5	14.1	0.5	15.1	0.5

Percentage figures are being computed against world totals.
IMF, *Direction of Trade Statistics Yearbook,* 1989 *and* 1990. Exports and Imports are reported In f.o.b. and c.i.f. respectively.
'The oil-exporting member countries' group comprises Algeria, Indonesia, Iran, Kuwalt,Libya, Oman, Qatar, Saudi Arabia, and United Arab Emirates.
'The least developed member countries' group Includes those twenty countries so designated by the United Nations (Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, Gambia, Guinea, Guinea-Bisau, Maldives, Mali, Mauritania, Niger, Sierra Leone, Somalia, Sudan, Uganda, Yemen AR and Yemen PDR) as well as Senegal and 15th Islamic Development Bank Annual Report 1410H (1989-1990) p.47.

Table 9
The Flow of Trade Among Member Countries
Between 1980 and 1989 (1400-1410H)

(Percentage)*

Country	Exports to member countries										Imports from member countries									
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Afghanistan	14.3	24.6	16.6	8.5	4.8	3.2	3.4	2.2	1.4	2.3	5.9	8.4	3.0	0.3	3.1	1.9	3.9	3.1	3.4	0.9
Algeria	0.0	0.5	0.4	0.3	0.5	1.9	2.6	2.8	2.4	2.3	0.7	1.3	2.0	2.6	2.7	3.0	3.7	4.7	5.9	6.0
Bahrain	38.3	31.3	40.7	33.2	30.7	26.3	25.4	23.0	10.9	28.9	67.7	64.9	57.3	52.2	46.6	52.7	44.2	45.5	48.5	50.4
Bangladesh	18.4	21.3	19.9	20.6	18.1	19.2	14.7	10.7	12.7	10.6	13.6	25.9	19.9	18.5	10.9	14.2	12.1	11.7	12.9	11.8
Benin	4.0	6.8	6.7	3.3	1.2	2.2	3.9	9.2	9.0	8.6	11.4	9.7	7.9	12.1	2.8	2.4	4.7	5.0	2.6	2.8
Brunei	1.0	0.6	0.4	0.5	0.1	0.1	0.1	0.1	0.1	0.1	4.2	5.3	4.3	4.7	4.8	4.7	3.9	8.4	5.5	6.7
Burkina Faso	2.5	5.0	3.2	4.0	4.7	2.4	4.2	7.1	3.9	2.9	0.8	1.2	1.6	1.6	2.9	3.3	2.3	2.8	2.4	2.7
Cameroon	2.6	2.3	2.7	4.9	3.0	1.2	1.6	2.1	5.0	8.3	8.6	9.1	7.8	4.4	4.5	4.8	4.7	6.8	6.4	7.6
Chad	14.0	10.9	13.9	4.2	5.1	7.0	4.4	5.8.	0.9	39.5	16.4	10.3	15.0	10.4	9.6	9.1	12.6	12.1	10.5	19.2
Comoros	-	-	-	-	-	-	1.2	0.0	0.0	13.7	-	-	-	-	-	-	7.5	6.5	17.4	11.1
Djibouti	-	-	89.6	65.2	68.8	84.3	83.3	74.6	77.9	86.0	-	-	9.1	13.7	17.1	13.5	18.0	17.8	30.6	26.9
Egypt	3.9	5.7	7.5	5.5	4.3	3.1	4.8	4.1	6.9	9.0	1.4	2.5	3.1	1.6	2.8	4.6	4.4	5.0	5.9	5.4
Gabon	2.8	2.6	2.4	3.1	0.7	2.1	3.9	1.5	2.5	2.1	4.5	3.7	3.3	3.3	4.1	1.4	1.4	1.7	6.7	10.9
Gambia	10.8	16.5	12.6	9.9	9.2	9.2	8.0	4.0	5.3	4.6	1.4	4.5	7.4	5.9	8.5	7.4	4.4	2.8	2.4	3.1
Guinea	8.9	6.6	9.2	5.2	5.8	7.9	9.6	9.7	9.2	5.1	3.9	3.4	3.2	4.4	4.1	5.4	2.7	4.9	6.0	5.2
Guinea Bissau	5.9	10.8	5.1	6.4	3.2	4.1	11.3	1.6	1.1	1.8	3.2	7.1	6.8	3.6	3.6	3.9	11.7	5.2	4.9	4.6
Indonesia	0.9	1.0	1.5	1.4	1.9	2.4	3.4	2.6	4.3	4.6	7.8	1.8	9.1	6.8	11.5	5.3	7.6	4.4	8.4	8.1
Iran**	-	-	-	-	-	-	-	-	11.6	9.1	-	-	-	-	-	-	-	-	10.6	13.5
Iraq	10.1	17.4	19.9	17.7	13.8	11.4	14.1	14.8	20.0	20.9	7.6	8.1	10.1	16.0	20.6	16.4	15.7	23.9	26.6	18.4
Jordan	50.4	42.9	65.8	37.1	46.4	42.7	37.1	40.7	42.8	38.8	19.1	20.9	19.8	22.5	23.1	17.9	18.1	27.5	27.3	30.3
Kuwait	13.0	12.1	23.0	20.8	16.3	16.1	15.4	14.0	19.3	16.1	5.6	7.2	8.1	6.7	5.2	6.3	5.1	10.7	17.9	[illegible]
Lebanon	69.9	65.8	10.3	66.2	64.3	54.1	43.9	35.6	38.1	56.8	16.0	17.6	14.8	12.1	13.3	17.1	16.9	22.5	12.4	14.1
Libya	1.8	5.2	6.5	7.4	8.0	1.8	9.2	4.3	2.1	2.9	2.0	4.8	4.5	4.4	4.3	3.9	2.1	5.4	8.5	9.2
Malaysia	3.4	4.3	3.9	3.6	7.3	3.7	4.3	4.4	6.0	6.0	9.2	8.2	6.1	5.4	5.6	5.3	3.5	3.6	3.8	3.0
Maldives	3.6	19.7	-	2.8	11.6	0.0	4.6	0.8	0.3	0.3	1.6	0.0	1.0	2.3	3.6	1.8	1.4	1.0	1.5	2.5
Mali	0.5	1.1	2.5	4.9	9.6	9.6	7.2	19.6	26.4	29.2	12.0	10.5	9.5	9.4	7.7	6.3	4.8	5.3	6.7	7.7
Mauritania	0.7	0.2	0.2	0.7	2.5	1.9	0.5	5.2	6.0	8.0	4.7	14.1	9.9	8.7	16.6	14.7	6.5	19.0	16.1	15.7
Morocco	6.3	9.1	9.8	13.0	12.1	11.6	7.6	10.2	9.2	11.3	20.7	21.5	20.9	21.0	24.7	21.4	8.4	13.1	11.0	14.3
Niger	2.3	2.2	0.3	0.3	18.9	2.3	2.0	1.5	1.1	1.4	11.2	5.7	3.9	2.0	4.8	4.5	2.6	2.0	2.7	3.5
Oman	0.0	0.0	0.7	1.0	0.4	1.1	1.9	0.5	1.3	0.5	17.5	20.2	23.6	22.3	21.0	19.1	25.2	29.4	23.6	24.8
Pakistan	25.8	29.9	32.5	28.2	25.1	22.6	19.9	17.2	16.9	14.9	35.0	35.1	35.4	32.7	33.0	30.3	18.6	22.8	21.8	24.4
Qatar	4.9	5.8	5.5	4.3	3.9	4.8	6.6	8.5	11.0	8.9	6.4	8.9	8.5	7.3	7.0	6.1	6.6	8.1	14.1	13.5
Saudi Arabia	6.4	7.5	9.8	12.8	12.9	13.8	12.3	9.5	13.5	11.1	5.2	3.2	5.2	5.5	5.9	6.3	6.8	6.6	7.0	6.3
Senegal	10.9	21.3	14.5	17.7	12.0	14.8	11.7	10.9	11.1	11.6	11.9	8.1	8.7	6.0	8.8	9.3	7.6	7.9	4.5	3.8
Sierra Leone	-	6.1	0.9	0.0	0.0	0.2	0.4	0.2	0.4	0.3	-	0.8	0.5	9.4	5.7	5.1	2.6	0.6	1.5	0.8
Somalia	74.8	87.7	77.1	76.3	78.9	59.7	64.1	60.1	64.5	70.5	12.5	29.2	21.5	21.8	22.2	25.4	19.7	11.9	16.3	18.7
Sudan	17.7	27.5	41.0	37.5	28.5	37.0	39.3	31.8	25.6	26.5	15.2	24.3	23.4	26.4	25.5	23.3	20.5	21.1	25.1	28.6
Syria	20.5	13.1	17.7	11.8	10.1	8.3	10.5	6.4	20.0	21.7	23.6	25.4	24.5	15.7	10.6	9.8	14.6	.7.2	13.6	17.9
Tunisia	6.8	8.3	7.0	7.6	4.4	5.9	12.9	9.8	11.5	13.6	9.0	13.3	6.5	4.0	6.3	8.3	8.3	8.0	9.0	10.6
Turkey	25.4	36.6	35.7	29.9	28.6	28.1	23.1	25.0	38.2	26.8	24.5	34.3	34.6	29.9	22.6	16.5	14.7	11.5	20.7	18.8
Uganda	8.8	11.5	2.6	3.9	1.7	1.6	1.3	2.2	8.7	3.5	1.4	4.2	1.4	5.0	3.6	3.7	7.7	8.4	10.3	5.6
U.A. Emirate	5.1	7.0	8.1	4.9	7.3	5.2	9.3	9.6	11.6	8.0	14.0	12.6	14.7	13.4	10.9	10.3	10.3	8.6	13.1	14.8
Yemen Rep.***	-	-	-	-	-	-	-	57.8	10.7	9.6	-	-	-	-	-	-	-	25.0	21.3	24.9
Total	6.9	8.4	10.6	10.3	10.1	8.8	10.1	9.4	11.8	10.8	11.1	10.7	11.9	11.2	11.3	11	9.8	10.5	12.2	12.2

* Percentage of intra-exports to total exports (f.o.b) and intra-imports to total imports (c.i.f).

** Iran became a member of the Bank in 1988.

*** Yemen A.R. + Yemen P.D.R.

Source: IMF, *Direction of Trade Statistics Year book*, 1990 and previous Annual Reports of the Bank and 15th Islamic Development Bank Annual Report 1410H (1989-1990) p.55.

Table 10

Volume of inter- and intra-trade for Member, Industrialized and Developing Countries in 1989 (1409-14101)

(US $ billion)

EXPORT To / From	World	Industrialized countries	Developing countries	Oil-exporting countries	Non-oil exporting developing countries	Member countries
World	2,912.2 (100.0)	2,115.9 (72.66	737.3 (25.3)	98.3 (3.4)	639.0 (22.9)	175.9 (6.0)
Industrialized countries	2,125.4 (73.0)	1,609.9 (75.7)	459.5 (21.6)	68.6 (3.2)	390.9 (18.4)	114.0 (5.4)
Developing countries	786.8 (27.0)	475.6 (60.4)	251.2 (31.9)	28.9 (3.7)	222.4 (28.3)	58.6 (7.4)
Oil-exporting countries	154.4 (5.3)	101.4 (65.6)	46.8 (30.3)	3.9 (2.5)	42.8 (27.7)	12.4 (8.0)
Non-oil developing countries	632.3 (21.7)	374.1 (59.2)	204.5 (32.3)	24.9 (3.9)	179.5 (28.4)	46.4 (7.3)
Member countries	201.8 (6.9)	122.6 (60.7)	68.7 (34.6)	10.6 (5.3)	58.1 (28.8)	21.8 (10.8)

Source: Compiled and computed from *IMF, Direction of Trade Statistics Yearbook*, 1990. The classification of countries follows the source document. Figures in bracket denote the percentage share of the corresponding values *vis-a-vis* the world total and 15th Islamic Development Bank Annual Report 1410H (1989-1990), p.48.

IMPACT OF A UNIFIED EUROPE ON THE OIC COMMUNITY BY REGIONS

Rapid technological progress and the growing integration of global markets have transformed the role of economic interdependence in the world. Vigorous and dynamic participation in the channels of trade and primary resource flows will, to a growing extent, determine national welfare. As the technology advances, competitive pressures keep mounting. Market size and specialization become important determinants of national and international economic and financial performance. In such a market setting, national boundaries, however hallowed on an emotional level, constitute a limitation on the size of the market and therefore, on the scope of specialization.

Table 11

OECD Imports of Manufactured Goods from IDB Member Countries: Origin and Composition

Country	Value of Imports, of manufactures, by origin (US $ million)		Composition of 1988 Imports of manufactures by high-income OECD countries (percent)				
	1968	1988	Textiles and clothing	Chemicals	Electrical machinery & electronics	Tran-sport	Other equip-ment
Chad*	0	1	7	1	4	0	88
Bangladesh	0	774	84	0	0	0	16
Somalia	1	5	1	2	18	10	70
Burkina Faso	30	36	62	2	1	1	34
Mali	7	33	66	13	0	0	20
Uganda	0	6	2	1	2	2	94
Niger	0	367	0	98	0	0	2
Pakistan	161	2,159	79	0	0	0	21
Benin	0	15	1	1	3	47	48
Guinea	30	133	0	38	0	0	62
Yemen	2	34	1	0	7	4	88
Indonesia	10	3,339	33	3	1	0	62
Mauritania	0	3	25	5	3	6	61
Sudan	2	18	14	8	2	24	52
Afghanistan	10	50	91	1	0	1	8
Sierra Leone	80	69	0	0	1	0	99
Senegal	9	37	7	33	6	4	50
Egypt	28	448	62	5	2	1	31
Morocco	18	1,468	62	19	5	2	12
Cameroon	1	58	36	2	1	1	59
Tunisia	11	1,295	62	15	8	1	14
Turkey	23	4,356	71	5	2	1	21
Jordan	0	123	4	50	5	2	40
Syria	1	23	32	8	2	3	55
Malaysia	28	6,047	16	3	58	0	23
Lebanon	18	185	17	2	3	1	78
Algeria	13	239	1	21	1	18	60
Gabon	9	115	0	69	1	1	29
Oman	1	278	0	0	3	34	62
Libya	5	280	0	88	1	0	11
Iran	107	478	90	1	1	0	8
Iraq	4	133	1	9	4	13	73
Saudi Arabia	8	2,095	0	47	1	1	51
Kuwait	6	164	0	17	7	17	59
United Arab Emirates	0	366	27	22	5	2	44

* The countries have been listed according to their per capita income starting from the poorest.

Source: World Bank, *World Development Report*, 1990 and 15th Islamic Development Bank Annual Report, 1989-1990, p.57.

It should come as no surprise, therefore, that nineteen of the world's wealthiest countries in Europe have agreed, after elaborate but politically responsive discussions, to form a Single European Market (SEM) from 1st January, 1993. This has provided fresh impetus towards the eventual formation of the American Free Trade Association (AFTA) and the Pacific Basin Initiative (PBI). Each of these major trade groupings is sustained by complementarity of economic structures, geographical contiguity (and, therefore, a common geo-political identity), and a certain mutuality of national interests. Somewhat paradoxically, technological change and the pressures for the integration of markets are strengthening the case for free trade zones. Multilateralism in trade relations now seems to be relevant for OIC developing countries. The era of bilateralism in trade relations appears to be over.

IMPACT ON REGIONAL TRADE FLOW BY REGIONS

The economies of OIC member countries represent varying stages of industrial development and agricultural processing. Prospective trade diversion will affect various regions within the OIC with varying degrees of severity. Regions with a higher proportion of manufactured exports with greater content of value added will run a greater risk of a diversion of exports to the European Community. This may be either because of a diversion of demand to more efficient suppliers within the EEC or simply because of protectionism or in technical terms, the elasticities of substitution between source-differentiated imports into the European countries accessing the EEC in 1992. On the other hand, regions within the OIC that have a higher proportion of primary exports are likely to be less affected by trade diversion. The economies in the OIC, rich in natural resources and exporting resource intensive products to the EFTA and the EC are in this category. Their exports are frequently complementary to the structure of production in EFTA and EC countries. Theoretically speaking, economic integration typically raises the demand for import of complementary goods from nonmember countries.

However, the largest proportionate trade diversion would be to the disadvantage of the Maghreb group of countries. Morocco and Tunisia would be particularly affected. In the ACC group of countries, Jordan is likely to be the most acutely affected. The Sub-Saharan African countries in the OIC are likely to be affected moderately through trade diversions.

In Asian OIC member countries, the prognosis ranges from gloomy (Turkey and Pakistan) to indifferent (Indonesia, Malaysia). The non-oil OIC countries in the Mediterranean basin and in Sub-Saharan Africa will be harder hit, because the completion of European integration will render Spain, Portugal and Greece the major suppliers of a large range of agricultural and horticultural products which these OIC countries had traditionally exported to the EC. Non-oil Asian: countries are likely to be less affected because they have always had a lower preferential status in the EC than OIC countries in the Mediterranean and African regions.

OIC members rich in oil or other industrial raw materials (e.g., tin, rubber, bauxite, phosphorus) are likely to be less adversely affected. According to one estimate, in the event that Europe reaps the entire range of dynamic efficiency gains and the benefits of full income growth, the main beneficiaries of trade creation would be the fuel exporters who are expected to capture some 80% of the potential gains. This is mainly due to the high income elasticity of demand for fuel as compared with other primary products.

IMPACT ON SECTORIAL TRADE FLOWS

Insights into the sectoral product, and where possible, level denomination of the trade diversion, will help specify target areas for OIC action.

Agricultural and horticultural products (citrus fruits, olive oil, dates, tomatoes) are likely to be major casualties. The textiles and clothing industry within the EEC and EFTA has become well integrated and highly efficient, thus minimizing dependence on imports within the main categories. With Spain and Portugal becoming full members of European integration by 1992 and if community-level quotas replace national level quotas, the textiles and clothing industry (T&C) in OIC states is bound to run into considerable trade restriction. This is because, after the complete accession by Spain and Portugal, the community-wide quota may well be significantly lower than the sum of all national quotas due to the fact that Article 115 is likely to be inoperative by 1992. Thus, there is likely to be a one-off decline in the size of the effective import demand for T&C, which will mean a collective trade diversion for the T&C exporters within the OIC. The overall impact among individual OIC countries will depend upon whether the country at hand is currently geared to the top, the middle or the bottom end of the T&C market.

Also adversely affected may be OIC exports of leather goods (Morocco), sports goods (Pakistan), and building materials (Jordan).

The full impact of European integration will not be instantaneously felt, but will become apparent progressively. Consequently, the repercussions, gradual as they are, will have to be treated as such.

IMPACT ON THE OIC LABOR MARKETS

One of the items on the European integration agenda is the unification of the labor markets of the 19 countries of the European Economic Areas (EEA). The key feature of this has been the free mobility of labor. This would give rise to a complex process of adjustment of wage rates and the spatial distribution of the labor force. While the impact of this on the competitiveness of Europe's agriculture and industry would be favorable, it would very likely cause economic harm to Maghreb, Turkish and Pakistani workers in Europe.

According to one estimate, over 5 millon out of the total of 7.8 million emigrants are from Islamic countries. Turkey, Algeria and Morocco are the three largest suppliers of emigrants to the EC. Remittances of these migrants constitute a very important foreign exchange source for these countries. Demographic pressure from poor Islamic countries remains one of the major problems of our times and its consequences extend far beyond the scope of migration. The basic overall solution in the long-run will have to comprise the development of new forms of cooperation that would involve large scale aid and concerted assistance directed to these countries to enable them to find domestic jobs for their migrants and, therefore, to decrease migration pressures. The common management of migratory flows in the short to medium term may also be considered as one of the components of an overall cooperation policy.

IMPACT ON THE OIC CAPITAL MARKET

European integration, by raising Europe's prospective long-term profitability associated with the growing size of its market and its efficiency in the allocation of resources, will attract private foreign investment causing a redirection of capital flows to Europe's advantage.

A country's membership in the EC has become the prime determinant of its investment rating by multinational corporations and financial institutions. With the stock and financial markets within the EC growing more competitive and securing better returns for individual investors, capital flights gravitating towards the EC are clearly in prospect.

There is a connection between the determination of the optimal location of production and marketing facilities, and the direction of private foreign investment. Put differently, changing the direction of trade flows will bring in its wake the redirection of capital flows. There is a real chance that OIC countries experiencing trade diversion may also suffer a de-establishing cutback in net private investment. The countries particularly at risk are Morocco, Tunisia, Turkey and Jordan. This would be the case because presently European capital is the major player in the market for private foreign capital in these countries.

The three OIC countries in the ASEAN (i.e. Indonesia, Malaysia and Brunei) are likely to be more insulated from capital redirection. The effect on Pakistan and Bangladesh is also likely to be minimal.

For historical reason, the EC is the main source of capital flows to Africa. The concentration of European investment in Africa is found in the setting up of substitution industries as well as in exploiting natural resources, mines and extracting industries. Recently, the volume of investment has declined in favor of Asia, America and the Middle East. This decline is likely to intensify as a result of the market economy transformation that is taking place in Eastern Europe and the USSR. It appears that Eastern Europe would attract more investment from a single European market compared to investments in Third World countries. This change in the direction of investment is likely to put the West African countries of the OIC at a disadvantage.

The picture that emerges is one of a marked differentiation in the prospective capital-account performance of OIC countries. Oil exporters may make capital-account gains, while non-oil OIC countries with a larger proportion of labor-intensive manufactures and horticultural exports will suffer from capital-account strains. The potential effects of a Single European Market on OIC member countries by regions are summarized in Table 12 below:

Table 12

Potential Effects of the Single European Market by 1992 on OIC Countries by Regions

#	O1C Member States by Regional Affiliation	Trade Diversion			Investment Diversion			Migration Restriction			Trade Creation
		low	medium	high	low	- medium	high	low	medium	high	medium/ high
1.	GCC Countries				*			*			*
2.	Mediterranean Countries										
3.	ACC Countries (i.e. Jordan)		*			*			*		
4.	Sub-Saharan African Commies		*			*					
5.	ASEAN	*			*						
6.	SAARC South Asian Countries		*			*				*	

Note. 1. The Mediterranean countries most adversely implicated are Morocco and Tunisia (i.e. Maghreb Group).
2. OIC countries which are ASEAN Member are Malaysia, Indonesia and Brunei.

Source: Adapted from a synthesis of the papers presented at the seminar on 'Impact of Single European Market by 1992 on OIC Member Countries' held in Casablanca, during October 29-31, 1991, organized by ICDT & IDB.

Table 12 above presents a succinct view of the regional variations in the prospective impact of the Single European Market by 1992. Several observations are pertinent at this juncture: First the Maghreb and Sub-Saharan countries will be more adversely affected, than populated South Asian Countries such as Bangladesh and Pakistan. On balance, the oil rich GCC countries are expected to make trade gains, which will favorably affect their industrialization process.

ASEAN members of the OIC (e.g. Indonesia and Malaysia) have less cause for concern than many other countries which rely on a narrow range of products. Trade diversion is unlikely to affect the primary exports of these countries as there are few European substitutes for Southeast Asian primary commodities. However, there may be some diversion of manufactured trade from Indonesia and Malaysia to Portugal, Spain and Greece which produce close substitutes. Brunei is likely to be least affected of all, as its oil exports are immune to trade diversion. In any case, much of Brunei's oil is marketed in the Asia-Pacific region. Indeed, Brunei may benefit from the Single European

Market as demand for its oil is expected to rise after 1992. This, however, does not mean that the ASEAN Islamic countries have nothing to worry about in so far as the SEM is concerned. The "widening" of the EC, more than the deepening of integration in the EC, can cause problems as nonmembers can be crowded out in the process. Even if trade diversion is not a serious problem for the ASEAN Islamic countries, the SEM may divert investments away from these countries as Asia-Pacific investors will try to get a foothold in the SEM by investing in Western Europe at the expense of Southeast Asia.

At the same time, one should not underestimate the possible positive effects, such as the spill over or spread out effects emanating from a vibrant EC. The scope for increased intra-industry trade is likely to grow as a borderless Western Europe undergoes structural changes. The harmonization of standards, procedures, etc. within the EC should augur well as it would be easier for third countries to deal with a uniform set of rules and regulations than a multiplicity of them (although coming to grips with the new sets of rules, standards and norms is not going to be an easy task). The fact remains that the full impact of the SEM is likely to be felt gradually. A post-integration study is definitely required.

ROLE OF THE IDB AND ITS OPERATIONAL STRATEGIES

In the context of this great transformation, it is pertinent to indicate the role which the IDB has been playing and is expected to play in the future. The IDB is the institutional expression of the economic cooperation and development of OIC member countries. Ever since. its establishment in 1975, the IDB has contributed to the development process of its member countries under the clear assumption that the policies of the IDB, being a Bank of the member countries, are essentially geared to complement and supplement the efforts of its member countries in accordance with the principles of the Shari'ah.23 In pursuance of such policies, the Bank has adopted the following five strategies:

23. See, an address by Dr. Ahmad Mohamed Ali, President, IDB, to the meeting jointly organized by Islam and the West and the French Association of Banks, held in Paris, France, in 1988.

a) participating in various projects and trade financing and promotion activities to further develop the economic base of OIC member countries;
b) assisting member countries in their efforts at strengthening economic cooperation both at the national and international level;
c) maintaining consultation/coordination with various regional, sub-regional and intra-regional economic integration groups in Africa and Asia where Islamic countries are members;
d) maintaining working relations with other international institutions of the UNO with similar objectives and mutual affiliations; and
e) keeping an open-door policy of economic cooperation with any other institutions with similar objectives.

These strategies are intended to consolidate the gains of economic cooperation and expand the capacity and potentials of economic institutions of the member countries of the OIC, thereby contributing to the process of economic development.

In pursuance of the above mentioned strategies, by 1989, the IDB had approved more than US$ 10 billion to augment the expansion of trade, productive capacities and economic potential of the Islamic world through various financial operations and modest finance, including loans, equity participation, leasing, profit-sharing, and technical assistance covering almost all the sectors of the economy of member countries (e.g., agriculture, industry, transport and communication, public utilities and social activities).

Among other modes of financing, the IDB also employs:

a) Import trade financing (ITFO) which emphasizes industrial raw materials and other inputs with repayments falling between 9-24 months;
b) The Longer Term Trade Financing Scheme (LTTFS) for the promotion of nontraditional exports with repayments falling between 2-5 years as developed under the auspices of the Standing Committee for Economic and Commercial Cooperation (COMCEC); and

c) The Islamic Banks' Portfolio (IBP) for direct access by the private sector with repayments due in 18 months for purchase-sale transactions and up to 7 years for leasing operations.

Other schemes that are at advanced stages of preparation include the Export Credit Insurance Scheme and the Multilateral Islamic Clearing Union to promote intra-trade. The IDB also shares with the Islamic Center for Development of Trade (ICDT) the task of making preparations for the Trade Information Network.

Given its resources, it should be possible for the IDB, in addition to providing funds for development projects, to play an important role in terms of:

a) Trade financing to increase the volume of intra-Islamic trade.
b) Countertrade among Islamic Countries;
c) Additional Islamic financial instruments and modes of financial transactions so that funds that are available can be put to more effective and productive uses;
d) Strengthening its research capabilities to make contributions to policy making in Islamic countries;
e) Acquiring negotiating skill through organizing suitable training programs;
f) Assisting member countries to come to grips with the new standards, rules and regulations arising from economic integration in Europe;
g) Providing technical assistance for undertaking restructuring and readjustments in Islamic countries in the wake of the rapidly changing international environment, and
h) Providing increased research support for the introduction of inter-Islamic commercial transactions coupled with Islamic norms, values, instruments and economic behavior.

SUGGESTIONS AND RECOMMENDATIONS

Recognizing the complexity and difficulty in pinpointing the actual magnitude of the impact of the Single European Market (SEM) (within a broader framework of the process of the economic and social transformation that is taking place in Eastern European countries including the USSR) on different Islamic countries of the OIC, and recognizing the urgent need for building the in-house capacity of the OIC community to overcome such difficulties on a long-term sustainable basis, this study has stressed the need for constructive dialogue and cooperation with the EC as well as the countries of the "South" at the OIC level. The main suggestions and recommendations of the study are given below at three levels: (1) Operational, (2) Unilateral policy and (3) Cooperational.

OPERATIONAL LEVEL[24]

1. In view of the fact that different Islamic countries of the OIC community already have different types of bilateral agreements and specific protocols with the EC, it is important to draw up a common strategy at the OIC level in the negotiations and future cooperation between Islamic countries and the EC. It is also important to draw up a collective strategy at the OIC level to minimize the adverse effects of protectionism and other inequities in the existing arrangements on the economies of the Islamic World.

2. In light of the widening of the EC along with the deepening of economic integration within the EC, efforts should be made to ensure that the EC's single market remains open as much as possible to Islamic Countries. The EC's treatment of Eastern European countries vis-a-vis Islamic countries should be based on the principles of fairness, equity and nondiscrimination.

3. Efforts should be made to minimize the adverse effects resulting from the restrictions on labor mobility and so-called "foreign workers" who are predominantly from Islamic countries.

4. A task force should be created in early 1993 by ICDT in cooperation with the IDB and the Ankara Center to classify the approximately 279 directives to be issued by the EC commission which are designed to remove existing barriers within the EC by December 31, 1992. The incorporation of these directives into the national laws of each of the 12 EC member states, should be analyzed along with their economic and social effects on Islamic countries should be analyzed.

24. Also adopted by the Seminar on "The Impact of Single European Market by 1992 on Islamic Countries" held in Casablanca, during 29-31 October 1991, jointly organized by ICDT and the IDB.

5. A meeting of the Islamic Chamber of Commerce of Islamic countries should be held as soon as possible to create awareness among all Islamic countries and to identify measures for overcoming difficulties at the operational level.

6. In view of the global implications of the SEM, a follow-up study covering the post integration period should be arranged on a priority basis in 1993 by ICDT in cooperation with the IDB and the Ankara Center. A seminar on "Management of Trade in Modern Muslim Society" should also be organized.

7. Since Islamic countries are already members of different regional economic groups such as ASEAN in Asia, GCC in the Middle East and MAGHREB in Africa, efforts should be made at the OIC level to forge a common negotiating platform with the EC on trade, labor, aid and related policies and issues. In this respect, the OIC Community should cooperate and collaborate with non-member countries of the South.

8. Within the framework of global perspectives, the OIC should cooperate with the South which proposed sweeping changes in the rules governing international economic relations including trade and monetary reform, increasing aid, controlling multinational corporations and enacting arrangements enabling them to have access to the decision making process in major international economic institutions.

9. Efforts should be made to undertake specific country-by-country studies to increase and diversify intra-trade within the OIC Community through greater liberalization, tariff concessions, bilateral and multilateral agreements and the dissemination of more specific and comprehensive market information at more frequent internals, including the exchange of information relating to customs procedures, regulations, safety standards, standardization, etc. In this context, the implementation of the Trade Preferential System among OIC member countries should be expedited.

10. Serious efforts should be made to increase the level of financial flows to OIC member countries so as to assist them in their economic reform efforts and to compensate them for the decrease in the inflow of external resources/aid. This should be linked to a greater self-reliance and structural reform and balancing the sustainable development with the environment. For

the least developed member countries, this means the priority should be given to food security and agricultural development, especially agro-based labor intensive industries.

11. Efforts should be intensified to develop innovative financial instruments and Islamic capital markets for raising funds from the private sector, promoting cooperation among national development financing institutions of member countries and Islamic banks and encouraging the financing of joint venture and co-financing projects.

12. Conscious efforts should be made for the development of human resources through appropriate training and educational programs to improve the quality of human capital. In this context, a special fund should be created at the OIC level to promote technical cooperation, to contain the ever increasing "brain-drain" from Islamic countries and to utilize intra-OIC expertise on an agreed preferential basis through mutual recognition of professional degrees in appropriate fields.

13. Technical assistance should also be given under certain conditions for sectoral and market studies to assist in identifying investment opportunities and export-oriented projects, and for studies on complementarities and future studies of Islamic countries and institution building in OIC countries.

SUGGESTED UNILATERAL POLICY MEASURES AT THE OIC LEVEL

It has already been pointed out that Islamic countries may not react to the bloc formation in the EC negatively. Our response should be positive in two important ways: (a) taking up the challenge so that products from Islamic countries will become more competitive in the EC market through better resource allocation via increased cooperation among Islamic countries and (b) setting our own houses in order - eliminating inefficiencies and mismanagement in our individual economies.

There has always been a tendency to blame the external world for all our economic ailments. It is often forgotten that much can be done at home to overcome these difficulties. This observation calls for domestic policy reforms in the following areas:

Macroeconomic Policy

It is important to get the macroeconomic policy right for macroeconomic imbalances and instability will derail policy reforms no matter how well conceived and implemented. Conservative monetary policy, prudent fiscal policy and realistic exchange rate policies can help ensure internal and external equilibria.

Industrial Policy

The import substitution pursued in most Islamic countries should be reviewed. Industries that have shown no sign of "growing up" should be asked to "shape up or ship out". Too much protection tends to breed inefficiency and inertia. Exposing domestic industries to external competition will force them to be more efficient. A reorientation of domestic industries towards export markets will also inject efficiency.

Agricultural Policy

The agricultural sector in most Islamic countries remains underdeveloped and inefficient. Again, overprotection may be the cause of inefficiency. Research and development (R&D) activities are almost nil in most

Islamic countries. There is a need to8 reorganize in principle the agricultural sector based on the comparative advantage.

Marketization and Privatization

The excessive planning and high profile of the public sector in many Islamic countries should also be reviewed. Market forces, if given a greater leeway, can help allocate resources more efficiently. While there is certainly a legitimate role for the public sector in any economy, some public enterprises can be privatized without sacrificing their socioeconomic objectives. Liberal policies towards the private sector can stimulate investment, output and employment.

Human Resource Development

It is worth repeating that the most precious resource is the human resource - if it can be developed to the fullest. In a world of rapidly changing technology, the absorptive capacity of the Islamic World can be enhanced only through investment in human capital. It is only through this investment appropriate technology suited to the OIC Community environment can be developed. Islamic countries should therefore pay particular attention to human resource development.

LINES OF COOPERATION AMONG ISLAMIC COUNTRIES AT THE OIC LEVEL

While further co-operation among Islamic countries of the OIC is seen as a valid option, cooperation at the OIC level should be strengthened bearing in mind the following areas:

1. In addition to preferential treatment for the products of OIC members and the exchange of information, consultations among OIC countries on international issues should be held so that there can be some convergence of ideas and positions. This should help OIC countries to arrive at policy positions and improve their "bargaining power" vis-a-vis non-Muslim countries. This, however, should not amount to confrontation of any sort.

2. Bloc formations in advanced countries - such as the EC -present both problems and opportunities. OIC countries should organize themselves to

minimize the adverse effects and to maximize the positive effects emanating from such external developments. Opportunities in the EC and North America should be identified and the information - research findings - should be disseminated to OIC members.

3. While the harmonization of rules and standards in the EC will augur well for Islamic countries in the sense that they will only have to deal with one set of rules and standards in the EC instead of a multiplicity of rules and standards, it will not be easy for the average Islamic country to come to terms with such new rules. Many OIC countries do not have the skill or expertise to handle the complex set of rules and regulations that will emerge in the EC after 1992. The OIC should organize training facilities - through IRTI/IDB or ICDT - for its member countries.

4. Since trade and investment flows are interlinked, it is necessary to increase investment linkages among Islamic countries in order to promote intra-Islamic trade. Impediments to intra-Islamic capital flows should be phased out and positive steps should be taken to encourage investment by Islamic countries.

5. Economic cooperation among Islamic countries is loosely structured at present, in view of the heterogeneity of their economies which are not only geographically dispersed but are also at different stages of development. Many Islamic countries already belong to regional groupings (e.g., Malaysia in ASEAN, Pakistan in SAARC and Nigeria in ECOWAS). Such complexities do present problems, which are, however, not insurmountable. Economic cooperation among Islamic countries need not mean the disengagement of existing regional ties. Nonetheless, Islamic countries which already belong to regional groupings may be required to extend similar privileges to other Islamic countries on an MFN basis.

6. Efforts should be made to provide all possible technical assistance to newly autonomous and independent Muslim republics emerging out of drastic changes in the USSR.

Although the increased economic cooperation through institutional development and the consequent evolution of the unity of the Islamic Ummah should be seen as a viable alternative and valid option for the member states of the Organization of the Islamic Conference, the increased level of economic cooperation needs to be translated into a specific action program with a clear vision of the 21st Century.

The Islamic world has about 20% of the world's population, 50% of the world's oil, and 40% of the world's exporting raw materials and other resources. The potential of the Islamic Ummah in the areas of further economic cooperation is very great indeed. This economic cooperation may not be seen as an end in itself but as a means to an end. In conventional terms, this increased economic cooperation will lead to increasing output, employment and income arising out of specialization, comparative advantage and economies of scale. It would lead to improvements in the terms of trade of the member countries concerned. While the vertical and horizontal integration of enterprises are expected to bring greater economic efficiency, increased economic cooperation brings greater economic integration. It is through the efficient management and conscious coordinated efforts of Islamic institutions in formal, informal and voluntary sectors that the forces of economic cooperation among Islamic countries can be generated at the sub-regional, regional and trans-regional levels, thereby internationalizing the production relations among the OIC Community as represented by its forty-six member states.

It is the Islamic substance in the content of economic cooperation that should make joint Islamic economic action distinctive in character. Therefore, cooperation in the field of trade, money, banking and finance needs to be linked to a vision of authentic substantiable development for a just and compassionate society within the framework of the classic declaration of Makkah Al-Mukarramah made at the Third Islamic Summit in 1401H (1981).

These are some of the areas where response at the OIC level can be built up in planned phases in the wake of the great transformation in East-West relations resulting from the collapse of communism and the consequent emergence of a formidable economic block in the remaking of a new Europe. As noted earlier, OIC member countries have the necessary numerical strength, resource base and cultural moorings. What is needed is the political will with a social vision of the 21st Century in conformity with the principles of Shari'ah.

CONCLUSION

The challenge of the 90's provides an opportunity to respond to the future in a more efficient and coordinated manner. As mentioned earlier, the period of changes generates the forces of uncertainty. Therefore, the need for collective action and cooperation is perhaps more important than ever before in the efficient management of this uncertainty. There is a need to give priority to establishing an Islamic action plan within this matrix of global perspectives.

In the wake of the great transformation in East-West relations, there is an urgent need to establish the direction of joint economic action by OIC member countries within the perspectives of the 21st Century. In the areas of economic cooperation, some notable progress has been made since the classic declaration of Makkah Al-Mukarramah at the Third Islamic Summit in 1401H (1981). A number of significant economic institutions have emerged, yet the task is far from complete. The new challenges of the 1990's provide new opportunities as well.

As far as the IDB is concerned, international cooperation is vital for success in promoting economic development in the Islamic world. But the task of economic unity at hand is too huge and complex for any institution, irrespective of the resources or expertise at its disposal. Furthermore, in the absence of cooperation and effective coordination, scarce resources would be wasted and there would be a great deal of duplication of efforts with its attendant inefficiency and ineffectiveness.

In this context, the lessons of experience of the integration groupings of developing countries should be carefully analyzed to avoid a duplication of efforts. It is, however, felt that there is a clear need for the consolidation of gains of economic cooperation. What is needed is a better coordination of efforts made so far. As a part of the operational strategy, there is a need for the identification of complementarities in the economies of Muslim countries for further expansion of economic cooperation. In addition, there are several other critical factors such as : (a) the widening economic gap between North and South, (b) the failure of the North-South dialogue, (c) the growing protectionist trend in the North, (d) the decrease in the flow of external resources in the developing countries of the South, (e) the increasing debt burden, and (f) the marginal effects of the integration groupings of developing countries particularly in respect of real intra-group trade liberalization. All of these must be taken into consideration in determining the new strategy and orientation.

Concerted efforts should also be made to promote the development of those OIC member countries which are least developed. There is a clear need to pool Islamic countries' resources so that joint Islamic action can be better coordinated, not in order to confront the East-West economic alliance but to protect the legitimate interest of the 46 OIC member countries (of which 21 belong to the category of least developed countries) in order to bring about a better equilibrium for the benefit of all mankind.

APPENDIX I

SALIENT FEATURES OF EC AND EFTA AGREEMENT AS ON 22 OCTOBER 1991

On October 22, 1991, the European Community (EC) and the European Free Trade Association (EFTA) reached a historic agreement on the world's biggest common market, a 19-nation European Economic Area (EEA) stretching from the Arctic to the Mediterranean. EFTA comprises Austria, Finland, Iceland, Norway, Sweden, Switzerland and Liechtenstein.

From January 1, 1993, the newly-formed EEA will offer either limitless or little-hampered access to its members with a market of some 380 million consumers.

It is the biggest and strongest integrated economic area in the world and advantageous for both the EC and EFTA.

Here are some key points of the treaty:

TRADE IN GOODS

Products originating in any of the 19 EC and EFTA countries will flow freely throughout the EEA from 1993, avoiding customs duties, discriminatory domestic taxes and quotas, and with easier border controls. Goods can be stopped on the grounds of security, safety and health and the EC and EFTA must still agree on a system under which certain goods will be classified as from within or outside the EEA. The accord outlaws state monopolies. Special arrangements have been necessary for agricultural and fishery products, energy and coal and steel.

MOVEMENTS OF WORKERS AND SERVICE

From 1993 individuals should be able to live, work and offer services throughout the bloc.

To help the process, EFTA will bring its social security legislation in line with that in the EC. Professional diplomas awarded in one country will be recognized throughout the area. Switzerland, which has strict limits on immigration, has received an extra five years to implement the rules fully.

CAPITAL MOVEMENT

These will be freed up, including, banks, insurance and securities, telecommunications, information services and transport. But there are restrictions on investment in real estate and direct investment in EFTA countries.

COMPETITION POLICY

EFTA countries will take on board the EC's competition rules, including those on anti-trust matters, the abuse of a dominant position, public procurement, mergers and state aid. EFTA will set up a special surveillance body to ensure that companies on its territory play fairly by the rules.

EFTA will take over EC rules on company law, consumer protection, education, the environment, research and development and social policy.

TRADE IN FARM PRODUCE

The EEA deal means EFTA members can keep their own domestic farm policies, rather than joining the EC's common agricultural policy. Both sides will work toward a "progressive liberalization" of agricultural trade, bearing in mind any decisions on agriculture in the Uruguay Round of talks under the General Agreement on Tariffs and Trade.

There will be reviews every two years, for the first time at the end of 1993, to seek ways of reducing trade barriers.

TRADE IN FISHERIES

Under a last-minute deal Norway and Iceland will enjoy duty-free access to EC markets from 1993 for some fish species like cod and haddock and from 1997 for others. Norway did not manage to secure better access for more sensitive stocks like salmon, herring, mackerel and prawns. Under the accord, Spanish and Portuguese boats will be able to fish up to 11,000 metric tons of cod in Norwegian waters by 1997, a deal opposed by the Norwegian fishing industry. The accord represents only a third of what Spain originally sought.

Norway and Iceland prevented a clause allowing Spanish fishermen to invest in their fleets, even though the European Court of Justice earlier this year overturned a British law preventing Spanish fishermen from gaining British fishing quotas by registering there.

ALPINE TRUCK TRANSIT

The EC has agreed with Austria to cut truck emissions by 60% over 12 years **and** with Switzerland to switch the bulk of its goods transport to railways. A host of other EC transport legislation would apply to EFTA countries, including EC rules opening the air transport sector to increased competition.

INSTITUTIONAL ARRANGEMENTS

The common market will be managed by a special EEA council of ministers, which will meet at least once every six months, and on a day-to-day basis by a joint committee comprising civil servants from the European Commission and EFTA countries.

The two-sides will also set up an independent joint court, linked to the EC's European Court of Justice in Luxembourg, which will deal with EEA-related disputes and all appeals on competition policy. Each EFTA state will nominate one judge. Plenary sessions will include five judges from the EC and three from EFTA.

MONEY

EFTA agreed to pay 1.5 billion European Currency Units ($1.8 billion) in soft loans, at a 3% interest rate "reduction from prevailing interest rates" with a two-year grace period, and 500 million ECU's ($600 million) in grants into a fund to help poorer EC members Spain, Portugal, Greece and Ireland. The money must be used to pay for environmental and educational projects.

Source: Arab News, Wednesday, Oct. 23, 1991

APPENDIX II

SUMMARY OF THE TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY (TREATY OF ROME) (EFFECTIVE FROM . 1 JANUARY 1958)

PART 1: PRINCIPLES

The aim of the Community is, by establishing a Common Market and progressively approximating the economic policies of the member states, to promote **throughout** the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard. of living and closer relations between its member states. With these aims in view, the activities of the Community will include:

a) the elimination between member states of customs duties and of quantitative restrictions in regard to the importation and exportation of goods, as well as of all other measures with equivalent effect;

b) the establishment of a common customs tariff and a common commercial policy towards third countries;

c) the abolition between member states of the obstacles to the free movement of persons, services and capital;

d) the inauguration of a common agricultural policy;

e) the inauguration of a common transport policy;

f) the establishment of a system ensuring that competition shall not be distorted in the Common Market;

g) the application of procedures that will make it possible to co-ordinate the economic policies of member states and to remedy disequilibria in their balance of payments;

h) the approximation of their respective municipal laws to the extent necessary for the functioning of the Common Market;

i) the creation of a European Social Fund in order to improve the possibilities of employment for workers and to contribute to the raising of their standard of living;

j) the establishment of a European Investment Bank intended to facilitate the economic expansion of the Community **through** the creation of new resources; and

k) the association of overseas countries and territories with the Community with a view to increasing trade and to pursuing jointly their effort toward economic and social development.

Member states, acting in close collaboration with the institutions of the Community, shall co-ordinate their respective economic policies to the extent that is necessary to attain the objectives of the Treaty; the institutions of the Community shall take care not to prejudice the internal and external financial stability of the member states. Within the field of application of the Treaty and without prejudice to certain special provisions which it contains, any discrimination on the grounds of nationality shall be hereby prohibited.

The Common Market shall be progressively established in the course of a transitional period of 12 years. This transitional period shall be divided into three stages of four years each.

PART II: BASES OF THE COMMUNITY

Free Movement of Goods

Member states shall refrain from introducing between themselves any new import or export customs duties, or charges with equivalent effect, and from increasing such duties or charges as they apply in their commercial relations with each other. Member states shall progressively abolish between themselves all import and export customs duties, charges with an equivalent effect, and also customs duties of a fiscal nature. Independently of these provisions, any member state may, in the course of the transitional period, suspend in whole or in part the collection of import duties applied by it to products imported from other member states, or may carry out the foreseen reductions more rapidly than laid down in the Treaty if its general economic situation and the situation of the sector so concerned permit.

A common customs tariff shall be established, which, subject to certain conditions (especially with regard to the Italian tariff), shall be at the level of the arithmetical average of the duties applied in the four customs territories (i.e., France, Germany, Italy and Benelux) covered by the Community. This customs tariff shall be applied in its entirety not later than at the date of the expiry of the transitional period. Member states may follow an independent accelerating process similar to that allowed for reduction of inter-Community customs duties.

Member states shall refrain from introducing between themselves any new quantitative restrictions or measures with equivalent effect, and existing restrictions and measures shall be abolished not later than at the end of the first stage of the transitional period. These provisions shall not be an obstacle to prohibitions or restrictions in respect of importation, exportation or transit which are justified on grounds of public morality, health or safety, the protection of human or animal life or health, the preservation of plant life, the protection of national treasures of artistic, historic or archaeological value or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute either a means of arbitrary discrimination or a disguised restriction on trade between member states. Member states shall progressively adjust any state monopolies of a commercial character in such a manner as will ensure the exclusion, at the end of the transitional period, of all discrimination between the nationals of member states in regard to conditions of supply and marketing of goods. These provisions shall apply to any body by means of which a member state shall *de jure or de facto* either directly or indirectly, control or appreciably influence importation or exportation between member states, and also to monopolies assigned by the state. In the case of a commercial monopoly which is accompanied by regulations designed to facilitate the marketing or the valorization of agricultural products, it should be ensured that in the application of these provisions equivalent guarantees are provided in respect of the employment and standard of living of the producers concerned.

The obligations incumbent on member states shall be binding only to such extent as they are compatible with existing international agreements.

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COMMENTS

Abdellah Alaoui Amini*

1. The Single European Act of 1993 is the outcome of a long process which started with the signing of the Treaty of Rome in 1987.

   It is part of a strategy that the recent events of the Eastern Europe have transformed in spirit as well as in form: in spirits, since the aim of setting up a kind of "third force" (in relation to the two superpowers) no longer exists at present; and in form, since the reunification of Germany and the attempts of the countries of Eastern Europe to adopt a market economy have completely changed the data of the problem.

2. German reunification presents problems not only to the Germans themselves, but also to the Europeans of the EEC (the Europe of 12) and to other economic powers, the United States and Japan in particular.

   Reunification will be expensive with the risk of inflation in West Germany and unemployment in East Germany.

   There are risks of protectionism (whose seeds are apparent) in a country which, up to now, has been the champion of free trade within the European Community.

   The American and the Japanese no longer know what to think of the monetary and the political union. They do not understand the debate between the "deepening" and the "enlargement" of the EEC.

3. Things go too quickly in Europe and in the world. Everything is unpredictable. This frightens even the Americans and the Japanese who have strong economies which showed their capacity to adapt to the difficult situations of the 1970s and 1980s.

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4. In place of the bipolarity which existed just a few years ago (two super powers, two economic systems), we speak more and more nowadays of a new world order and of a single economic system.

5. The Third World countries, among which are the OIC countries, like those who have been shipwrecked are desperately seeking new strongholds or new ideological supports.

In short, all of their strategies need rethinking because they have been conceived on the basis of a bipolar world.

It is in this uncertain context, in a world full of disorder, that the implications of the Single European Market on the Islamic World should be studied.

2

OIC/EEC TRADE RELATIONS

Zineel Abidine Houki*

The Twentieth Islamic Conference of Foreign Ministers requested the undertaking of an in-depth study on the implications of the establishment of the Single European Market on the Islamic World. This paper will essentially deal with trade and/will attempt to evaluate the implications of the establishment of the Single European Market on trade flows between the European Community (EC) and the Organization of the Islamic Conference (OIC).

The first section looks at the parties concerned and at the progress they have achieved in their respective trade policies. The second section presents the guidelines of the legal framework which governs OIC/EEC trade relations. The third section examines the status of the foreign trade of each party and of their trade exchanges. Finally, the fourth section deals with the changes entailed by the creation of the Single European Market and their implications.

I. THE PARTIES CONCERNED

A. **The Islamic World** **1. Historical**

Background

The 44 member states of the OIC, totalling 1,388 million inhabitants, are spread over two continents (Africa and Asia) covering four subareas : Sub-Saharan Africa, the Maghreb, the Middle East and Southeast Asia <u>covering a surface of 25,764 million square meters.</u>

The average Gross National Product per capita was US$ 2,767 for 1990; however, this income does not reflect the averages recorded in different states which range from $ 110 per capita to $ 18,430 per capita.

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Member states may be classified into three groups:

a) Higher income countries, 11 in number, all oil exporters.
b) Medium income countries, 12 in number, three of which are oil exporters.
c) Low income countries, 21 in number, 18 of which are classified by the United Nations as LDCs.

OIC member states are characterized by their geographical and economic diversity. Moreover, they all face even though at different levels, developmental problems and are aware of the necessity of strengthening economic cooperation.

The OIC was created in 1969 and promptly included the economic issue among its priorities. Three main stages led to the definition of its action in economic and commercial fields.

At the outset, the second Islamic Conference expressed at its meeting in Lahore/Pakistan in February, 1974, the strong will of member states to strengthen their economic cooperation and define the objectives to be reached.

In pursuance of the decisions made in Lahore, the OIC established a number of institutions to contribute, each in its own field, to the achievement of the OIC's objectives. One of these organizations is the Statistical, Economic, Social and Training Center for Islamic Countries which launched its activities in 1976 in Ankara, Turkey.

The OIC also provided itself with an appropriate legal framework by the adoption in 1977 of the General Agreement for Economic Technical and Commercial Cooperation. Article 8, 9 and 10 of this agreement define the guidelines of commercial cooperation between member states.

The third Summit of Mecca accomplished the following:

a) The creation of the Standing Committee for Economic and Commercial Cooperation (COMCEC) which was assigned the mission of following up the implementation of the resolutions adopted by the Conference of the Heads of States;

b) The adoption of a Plan of Action for Economic Cooperation for the implementation of the General Agreement for Economic, Technical and Commercial Cooperation.

c) The creation of the Islamic Center for Development of Trade which was entrusted with the promotion of regular trade exchanges between member states.

Finally, the fourth Summit of Casablanca was a landmark in OIC economic activity with the official inauguration of the COMCEC, the chairmanship of which was given to the President of the Republic of Turkey.

2. Trade Cooperation

The definition of multilateral trade cooperation between OIC member states is contained in the decisions and resolutions recalled above. The implementation of this cooperation began with the launching in 1983 of the ICDT (the Islamic Center for Development of Trade).

The mission entrusted to the ICDT is the promotion of regular trade exchanges among member states. To reach this objective, the Center was provided with a legal framework constituted by the General Agreement for Economic, Technical and Commercial Cooperation along with the Plan of Action which was drawn up for the implementation of the latter.

Chapter III of the General Agreement is devoted to commercial cooperation and defines in three articles the following main orientations of member states in this field:

a) It lays down the principles which are to govern this cooperation: non discrimination, trade liberalization, reduction or abolition of tariff or non tariff restrictions and special treatment towards the Least Developed Countries (Article 8);

b) It sets forth the principle of establishing an Islamic Center for Development of Trade among member states;

c) It encourages member states to organize fairs and exhibitions to make their respective products better known (Article 10).

The Plan of Action was drawn up on the basis of these recommendations. The ICDT established its work program which revolves around four main axes: studies, information, promotion and training. Within this framework a number of action were carried out, which, besides the organization of training seminars and business meetings, have enabled member states to have instruments which will foster trade cooperation between them.

Such instruments include the following:

a) The adoption of the Framework Agreement for the setting up of a preferential system for trade exchanges. This agreement which is now open for signature by member states provides for the launching of negotiations between signatory states;

b) The completion of a feasibility study of a Trade Information Network whose setting up is underway;

c) The promotion of the Islamic Trade Fair, which since 1986, takes place every two years in one of the member states.

B. The European Community 1.

Historical Background

The European Community (EC) is made up of 12 member countries, 327 million inhabitants and covers a surface of 2.25 million square kilo meters spread over the European continent.

The average Gross National product (GNP) per capita amounts to US$13,570, and seems, Portugal and Greece excepted, representative of the average recorded in different member states whose income per capita ranges between US$9,330 and US$20,450.

The EC seems to be geographically and economically homogeneous. However, although some differences may appear at the economic level, the EC does not contain any developing country, even though among its members there are less advanced areas in some meridional states.

Besides, the EC did not at its creation include the 12 current member states. Four major dates have marked the establishment of EC:

a) January 1, 1958: The coming into force of the Treaty of Rome. Various associations came into being in the past, in particular the European Organization for Economic Cooperation (EOEC), Europe Council, Western Europe Union (WEU), the Coal and Steel European Community (CECA). However, it was the idea of a unified European economy based on a common market which predominated in 1958 and which constituted the objective set gathering the six founders of the CECA : Belgium, Italy, Luxembourg, Netherlands, Germany and France.

b) January 1, 1973: Great Britain, Ireland and Denmark became members of the EC.

c) January 1, 1981: Greece became an EC member.

d) January 1, 1986: Spain and Portugal became EC member.

These different stages broadened the European cooperation bases which was embodied in the field of trade by the treaty establishing the EEC (European Economic Community).

Broadly speaking, the EEC was entrusted with achieving economic integration, which implied the merging of national markets into a large unified market where the movement of both merchandise and individuals would take place in the same conditions as those existing in a national market.

2. Trade Cooperation

The Treaty of Rome established a Customs Union which extends to all commodities and which provides for the following:

a) The prohibition between member states of imports and exports customs duties and of any taxes of equivalent effect,

b) A common trade policy vis-a-vis third countries which substitutes the European Economic Commission, the executive organ of Community policy for member states in negotiations with third countries.

The system instituted vis-a-vis third countries include,s for agricultural products, the implementation of the common agricultural policy by the setting up of a system of price reference which prevents the entry of fruits and vegetables when their prices is lower than the level fixed by the EEC, and by establishing calendars of imports which implies that tariff concessions are valid only for some periods of the year.

As regards industrial products, a restrictive system base don import ceilings is applied to oil products. Furthermore, a safeguard clause enables, in general, the entry of certain products to be suspended in order to protect the interests of producers from a possible imbalance in the market (cf., the textile case).

II. LEGAL FRAMEWORK OF OIC/EEC TRADE RELATIONS

OIC/EEC trade relations are governed by various bilateral agreements concluded either separately by member states, or, collectively as in the case of the ACP (Africa, Caribbean Islands and Pacific), the GCC (Gulf Cooperation Council) and the ASEAN (Association of Southeast Asian Nations). There has been no collective attempt on the part of the OIC to define its relations with the EEC.

As for the EEC, its relations with most of these states are based on a global approach illustrated by the Lome Convention and by the so-called Mediterranean agreements, which in spite of being separately negotiated, are inspired by a single pattern.

Therefore, the legal framework of OIC/EEC trade relations is defined by various kinds of agreements which may be classified into the following: Association Agreement, Global Cooperation Agreement and Cooperation Agreement.

A. Association Agreement : Turkey

Only Turkey is concerned with this kind of Agreement. The first was signed in 1963 and opens the prospect for full membership. In 1988, adaptation protocols to the widening of the Community were signed. The trade aspect of this agreement aims at gradually establishing a customs union.

B. Global Cooperation Agreements

1. ACP Countries (Africa, Caribbean Islands and Pacific)

The Lome Convention was concluded by the EC with 69 CP states, 18, of which are OIC member states (Benin, Burkina Faso, Comoros Islands, Djibouti, Gabon, Gambia, Guinea, Guinea Bissau, Mali, Mauritania, Niger, Senegal, Sierra Leone, Somalia, Sudan, Chad and Uganda).

This convention was signed for the first time in 1975 and was renewed in 1979, 1984 and 1989. It constitutes a Global Cooperation Agreement covering both development and trade.

As regards trade, the main clauses provide for:

a) Free access and duty free to the EC market for most ACP exports, some agricultural products excepted,

b) Purchase of ACP sugar guaranteed by the EC at the rate of 1.3 million tons,

c) Financial means for trade promotion through STABEX (Stabilization of the Exports Receipts of the Fund of Agricultural Commodities) and of SYSMIN (Special Financing Facility for Mining Products).

2. Maghreb, Egypt, Jordan, Lebanon and Syria

Out of the five countries of the Arab Maghreb Union, only three (morocco, Algeria and Tunisia) have concluded cooperation agreements with the EC; Mauritania has signed the Lome Convention while Libya has concluded no agreement.

Therefore, thee is no collective Maghreb agreement,but rather three parallel cooperation agreements were signed in April 1976, covering trade and development aid. The same kind of global cooperation agreement exists between the EEC and the Mashreq countries: Egypt, Jordan, Lebanon and Syria.

For trade, the agreements provide for the establishment of a nonreciprocal preferential system implying:

a) For industrial products, the abolition of customs duties and quantitative restrictions. Moreover, this free access is subject to restrictions for some industrial products considered to be "sensitive" for the Community, e.g., agreements were reached establishing limitative quotas on textiles; cotton in spite of being very important for Egypt and Syria is excluded from the agreement and ceilings were fixed on refined oil products.

b) For agricultural products, concessions comprising tariff reductions ranging from 20% to 100% except for some products which are subjected to specific limitative provisions, within the framework of the common agricultural policy (citrus fruits, tomatoes, table grapes and olive oil).

C. Cooperation Agreements 1. Gulf

Cooperation Council (GCC)

A cooperation agreement was signed in 1988 between the GCC and the EEC and covers several fields, notably, economy, agriculture, energy and investment promotion.

In the area of trade, the agreement doe snot provide for any privileged system; the applied tariffs pertain to common law. For the GCC it means the implementation by the EEC of the common external tariff, notably, for petrochemicals which are the main export product. Customs are levied on these products when their level exceeds the ceilings fixed by the Community.

2. Yemen

Yemen concluded with the EEC a cooperation agreement which came into force in 1985. This is a non-preferential framework agreement covering the economic and technical fields.

Within the scope of this agreement, Yemen benefits from STABEX, like the countries which are signatories to the Lome Convention.

3. Brunei, Indonesia, Malaysia and Bangladesh

Brunei, Indonesia and Malaysia are signatories to the Cooperation Agreement concluded in 1980 between the EEC and ASEAN countries.

The same kind of agreement was signed in 1976 by Bangladesh. This is a non-preferential agreement based on the most favored nation clause.

The four countries benefits from the general system of preferences applied by the EEC. The first three countries benefit by this system at the rate of 30% of their export san Bangladesh at the rate of 45%.

D. Other Countries

The rest of the OIC's member states have not signed any agreements with the EEC. These are Afghanistan, Iraq, Iran, Libya, Maldives, Pakistan and Palestine.

In short, Table 1 reflects the legal framework of OIC/EEC trade relations.

Table 1

Legal Framework of OIC/EEC Trade Relations

Preferential Trade Agreements
Algeria, Benin, Burkina Faso, Cameroon, Comoros Islands, Egypt, Djibouti, Jordan, Gabon, Gambia, Guinea, Guinea Bissau, Lebanon, Mali, Morocco, Mauritania, Niger, Senegal, Sierra Leone, Somalia, Sudan, Syria, Chad, Tunisia, Turkey and Uganda
Non-preferential Trade Agreements
Saudi Arabia, Bahrain, Bangladesh, Brunei, United Arab Emirates, Indonesia, Kuwait, Malaysia, Oman, Qatar and Yemen.
Non Agreement
Afghanistan, Iraq, Iran, Libya, Maldives, Pakistan, Palestine.

Source: ICDT

III. FOREIGN TRADE

A. OIC

For our examination of the foreign trade of OIC member states, two years have been selected : 1975, the year which preceded the signing of cooperation agreements between a great number of member states and the EEC, and 1988, the last year for which figures are available for all of the counties concerned. The OIC's trade during the period of reference found in Table 2.

Table 2

OIC Trade

(US$ million)

	1975	1988	Variations (%)
Exports	131,548	168,145	+27.8
Imports	51,312	146,664	+185.8
Balance	+80,236	+21,481	-73.2%

Source:

It can be seen form this table that imports recorded a significant increase since they multiplied by about 2.86 which corresponds to an annual average of about 13.3%, while exports went up by about 5.2%.

During the same period, world trade increased by 16% per year and that of developing countries by 12.7% per year.

The results recorded by OIC foreign trade were similar to the position held by this trade in world trade. The OIC's share in world trade dropped from 10.3% to 5.5% while that of developing countries went down from 23% to 19.9%.

On the other hand, intra-OIC trade showed a reverse tendency since it went up form 6.5% in 1975 to 11.5% in 1988. Even though low, this figure shows a significant progression.

As regards the structure of OIC foreign trade, it may be noted that in 1988 imports mainly concerned capital goods which come first with 32.3% of the total followed by manufactured products with 27.5%, food products and fuels accounting for an important share with 16% and 13.5% respectively.

Table 3

1988 IMPORTS PER MAIN CATEGORIES

Machinery & transport equipment	32.3%
Other manufactured products	27.5%
Agricultural & food products	16.0%
Fuels	13.5%
Textiles	6.0%
Others	4.7%
Total	100. %

Source:

At the export level, ten products or groups of products account for 72% of OIC exports. The first position is held by fuels which account for 54.4% of OIC exports and represent 39% of world exports of this product.

The nine other products are wood, yarns and threads, articles made up of material and hosiery, electric and electronic equipment, rubber, fruits and vegetables, fishing products, fertilizers and raw cotton.

This list is given according to the rank of products concerned in OIC foreign trade. Table 4 below classifies countries according to the relative importance of their exports of these products.

Table 4

Classification of Countries According to their Exports

FISHING PRODUCTS		**FRUITS** & **VEGETABLES**	**RUBBER**
Indonesia		Turkey	Malaysia
Morocco		Morocco	Indonesia
Mauritania		Iran	
Bangladesh		**Egypt**	WOOD
Senegal		Indonesia	
Malaysia		Afghanistan	Malaysia
Tunisia		Tunisia	Indonesia
			Gabon
			Cameroon
COTTON		**YARNS** & **THREADS**	**READY** TO **WEAR**
Mali	Syria	Pakistan	
Benin	Egypt	Egypt	Bangladesh
Chad	Cameroon	Bangladesh	Tunisia
Sudan	Iran	Turkey	Turkey
Burkina Faso			Morocco
		FUEL	Pakistan
FERTILIZERS			
		Saudi Arabia	Oman
Tunisia	Jordan	Iraq	Brunei
Morocco	Indonesia	U.A.E.	Qatar
Turkey		Iran	Bahrain
		Algeria	Syria
ELECTRICAL & ELECTRONIC **EQUIPMENT**		Indonesia	Gabon
		Libya	Egypt
		Kuwait	Tunisia
Malaysia		Malaysia	
Turkey			
Tunisia			
Indonesia			
Saudi Arabia			

Source:

B. EEC

The EEC ranks first in world trade; its share reached 37% in 1988 against 35% in 1975.

However, although it represents two-thirds of world trade,the volume of its Community trade is greater than that with the rest of the world. In fact, intra-EEC imports and exports in 1988 accounted for 62.2% and 56.6% of total imports and exports.

Table 5

Intra-EEC Imports and Exports

(US$ million)

	1975			1988		
	EEC	World	%	EEC	World	%
Imports	162,718	323,570	50.3	666,890	1.072,600	62.2
Exports	127,137	307,580	41.3	597,093	1.054,690	56.6

Source:

C. OIC/EEC Intratrade

The EEC is the first trading partner of the OIC. In 1988, it represented 26.9% of its exports and 35% of its imports. These percentages varied form one area to another. The table below gives a geographical distribution of trade between both parties.

The EEC's share varies according to the different areas. The Maghreb and Sub-Saharan Africa are chief trading partners with the EEC followed by Middle Eastern countries other than those of the GCC. However, taken as a whole, the Middle East comes first in view of the weight of Saudi Arabia and Turkey.

Table 6

Geographical Distribution of EEC/OIC Trade

(US$ million)

	1975		1988			
COUNTRIES	World (1)	EEC (%) (2)	World (4)	EEC (%) (5)	Variation 1988/1975 World 4/5	EEC % 5/2
IMPORTS						
Maghreb	13,646	63.8	25,850	61.2	89.4	-4.3
Africa S/Sahara	2,363	64.6	4,774	58.8	102.0	-9.4
Middle East	11,384	41.8	30,202	37.2	165.3	-11.0
G.C.C.	11,518	32.0	43,581	34.2	2659.7	7.0
Asia	12,401	20.0	43,257	16.0	248.8	-20.1
TOTAL	51,312	39.6	136,664	35.0	158.8	-15.0
EXPORTS						
Maghreb	13,698	53.0	23,664	68.0	70.6	28.4
Africa S/Sahara	2,967	53.4	4,727	48.0	59.3	-10.1
Middle East	31,086	37.3	25,760	37.6	-17.1	1.0
G.C.C.	50,126	35.7	51,661	14.3	3.1	-59.9
Asia	33,671	5.2	62,633	15.9	86.0	206.3
TOTAL	131,548	30.5	168,145	26.9	27.8	11.7

Source:

While trade with the rest of the world has increased, that with the EEC has dropped. This decrease affected the different areas unevenly. Asian countries have more than trebled their exports while those of the Maghreb have increased by 28% and GCC exports dropped by 60% between 1975 and 1988. As for imports, the overall downward tendency did not affect the GCC whose purchases from the EEC increased by 7%.

Moreover, the EEC accounts for an important share of OIC foreign trade, while the OIC represents only 4% of the foreign trade of the EEC. Therefore, the OIC is only a complementary market for the EEC while for a number of OIC countries, the European Market is an outlet and a supply source of major importance.

This situation has provided to be true for the ten groups of products mentioned above, whose exports are essential for a number of OIC counters and for which the EEC is a traditional market.

Therefore, it is important to consider the future of these exports and the changes likely to result after the Single European Market is established.

IV. SINGLE EUROPEAN MARKET

The creation, in 1986, of the Single European Market provides the Community with a double objective: to establish domestic European Market before January 1, 1993 and to relaunch relevant policies.

At the economic level and more particularly as regards trade, the Single European Market reflects the strong will of member states to adopt adequate measures for the setting up of the domestic market before January 1, 1993.

The achievement of this seems well on the way to success, since, thanks particularly to the substitution of the rule of majority vote for that of unanimity, the Commission managed to end its program of proposals in April, 1990, two years early, and allow the adoption of 60% of what was planned. Therefore, the Single European Market will officially take shape on January 1, 1993. What change swill this imply?

To try to answer this question, we will examine the repercussions ont he general legal framework and on trade itself.

A. Legal Framework

At the EEC level, unification will be completed by the establishment of a single economic space and the abolition of all obstacles to a free movement of persons and goods.

The abolition of obstacles means the removal of controls from frontiers: products shall move freely inside the Community, foreign products included, whatever their origin may be.

The logical consequence of this situation is the strengthening of a common policy vis-a-vis third counters. The EEC has already provided itself with common regulations concerning foreign trade whose implementation falls exclusively within the competence of the Brussels Commission.

These regulations are demurrable to third parties and it is within their framework that the different types of above mentioned agreements described were concluded. The future of these agreements depends on the trade policy of the Community. The option taken by the EEC consisting in working for trade liberalization and safeguarding export levels would seem to be heartening. Nevertheless, the risk of the frequent use of safeguard measures is to be feared.

B. Trade

The EEC's trade with third counters will surely be affected by the Single European Market.

In fact, the evolution of EC foreign trade showed a considerable increase in intracommunity trade between 1975 and 1985, intra-EEC trade and that of the EEC with the rest of the world progressed similarly: 12% per year for the former and 10% for the latter. On the other hand, between 1985 and 1988, intracommunity trade showed an average progression of 21% per year while trade outside the EEC increased by 16% per year only.

This new expansion resulted both from the extension of the EEC to 12 members and the impetus given by the acceleration created by the Single European Market.

The conclusions which may be drawn from this evolution can neither be final nor be used to predict future evolution. Nevertheless, the recorded tendency gives rise to some apprehension; in fact, there are many indications that economic integration will either hasten this tendency or confirm it.

We have reviewed the trade relations of OIC member states with the EEC, have outlined the legal framework which will prevail once the Single

European Market has produced its full effects and have made some assumptions on the future trend of OIC/EEC trade.

Has this helped us to answer our question and has it allowed us to estimate the implications of the establishment of the Single European Market on trade flows between the member states of both parties? It is clear that an accurate answer based on figures can only be given later. However, one should not wait for the effects to be produced in order to be concerned with them. OIC member states, separately or collectively at regional level, have all given full attention to the issue of their future relations with the EEC and have also requested the OIC to give them answers to this question. With this end in view, the OIC has decided to hold this meeting to debate this issue and to try to find answers to the questions put by member states. The dialogue which has already started should continue in order to improve the content of the existing agreements and to make them fully operative.

The approach adopted by OIC member states seems to be a good one and should be encouraged; the impact of the relations with the EC is not felt as much in Sub-Saharan Africa, the Maghreb, the Middle East or in Southeast Asia.

A double objective may be aimed at, both at the level of relations with the EEC and at the level of intra-OIC cooperation.

Within the framework of OIC-EEC relations, the share of OIC member states int he market should be safeguarded coupled with an adequate rate of increase. For this purpose, free access to the European Market should be effective, excluding reciprocity. It stands to reason that this objective, which springs from a minimal measure or even a measure of conservation, should not concern trade only, but should be placed within the framework of the global relations of both paries. In addition to trade, the Single European Market includes the movement of persons, capital, investments, etc.

All these components should be taken into account for the updating of existing agreements, since trade is the outcome of the unification of the various economic policies.

It would be illusive to try to determine to what extent the unification of these policies will affect the level of the EEC's self-sufficiency in some products considered to be "sensitive" for the OIC. However, let us hope that a possible redistribution will not be made to the detriment of OIC counters. Furthermore, the apprehensions which are caused now by the Single European Market will be enhanced by the opening of the EEC to Eastern Europe and more particularly by its extension to the EFTA countries within the European Economic Area.

The second objective should be the strengthening of intra-OIC cooperation. The improvement of the OIC's relation with the EEC is in fact an important element for the economic development of member states; but, to be effective and fruitful, it should be the outcome of sustained cooperation between member states. The increase which intra-OIC trade is showing should continue and be further enhanced.

The efforts exerted by different OIC organizations should bear fruit and enable member states to expand their cooperation activities. This will certainly contribute to the improvement of their negotiating positions vis-a-vis third counters.

Annex I

OIC EXPORTS - 1975/1988

Countries	1975* World Mios US$ (1)	1975* EEC % (2)	1975* LDC % (3)	1988** WORLD Mios US$ (4)	1988** EEC % (5)	1988** LDC % (6)	Variation (1988/1975) WORLD 4<>1	Variation (1988/1975) EEC 5<>2	Variation (1988/1975) LDC 6<>3
MAGHREB	13698	53,0	10,7	23364	68,0	13.2	70,6	28,4	23,4
ALGERIA	4291	55,1	5,2	8164	58,0	11,5	90,3	5,3	121,2
LIBYA	6834	51,7	13,5	8503	78,3	10,7	24,4	51,5	-20,7
MAURITANIA	174	68,7	4,6	428	44,2	10,1	146,0	35,7	119,6
MOROCCO	1543	54,1	11,1	3337	64,6	19,0	116,3	19,4	71,2
TUNISIA	856	47,8	16,2	2932	73,7	18,9	242,5	54,2	16,7
S/SAHARA AFRICA	2967	53,7	20,7	4727	48,0	30,8	59,3	10,1	48,7
BENIN	32	53,3	18,0	49	54,5	18,0	53,1	2,3	0,0
BURKINA FASO	44	38,3	58,9	154	59,2	34,8	250,0	54,6	-40,9
CAMEROON	446	63,7	14,7	924	60,3	28,5	107,2	-5.3	93,9
COMOROS									
DJIBOUTI									
GABON	942	58,3	16,1	1429	50,5	25,6	51,7	-13,7	59,0
GAMBIA	48	82,7	2,7	48	28,4	42,9		065,7	1488,9
GUINEA									
GUINEA BISSAU									
MALI	37	2,3	48,6	192	28,0	34,0	418,9	1117,4	-30,0
NIGER									
UGANDA	263	37,8	14,5	436	51,8	13,9	65,8	37,0	-4,1
SENEGAL	462	63,4	22,1	606	45,1	29,8	31,2	-28,9	34,8
SIERRA LEONE	140	73,7	0,5	148	65,0	9,0	5,7	-11,8	1700,0
SOMALIA	89	8,0	83,2	91	24,2	73,3	2,2	202,5	-11,9
SUDAN	424	40,7	27,4	509	28,6	51,4	20,0	-29,7	87,6
CHAD	40	6,1	37,7	141	31,3	67,8	252,5	413,1	79,8
GCC	50126	35,7	23,3	51661	14,3	45,4	3,1	-59,9	94,3
SAUDI ARABIA	29669	36,1	23,9	23737	16,1	48,1	-20,0	-55,4	101,3
BAHRAIN	1147	4,3	39,6	2412	2,2	82,2	110,3	-48,8	107,6
U.A.E.	6878	42,8	7,5	12149	9,3	34,8	76,6	-78,3	363,0
KUWAIT	9186	30,4	34,0	8357	23,1	53,6	-9,0	-24,0	57,6
OMAN	1437	35,0	16,6	2625	3,3	27,1	82,7	-90,6	63,3
QATAR	1809	50,7	15,5	2381	16,4	25,8	31,6	-67,7	66,5
MIDDLE EAST (Other Countries)	31086	37,3	22,0	25760	37,6	36,8	-17,1	1,0	67,5
EGYPT	1402	11,8	11,2	2648	42,5	20,0	88,9	260,2	78,6
IRAQ	26346	38,9	21,0	8724	29,6	49,0	-66,9	-23,9	133,3
JORDAN	126	4,9	14,2	885	8,0	79,1	602,4	63,3	6,6
LEBANON	870	12,0	66,2	517	10,4	63,2	-40,6	-13,3	-4,5
PALESTINE									
SYRIA	930	47,5	20,8	1324	33,8	21,4	44,6	-28,8	2,9
TURKEY	1401	43,9	20,0	11626	46,5	28,9	729,8	5,9	44,5
YEMEN	11	22,5	19,8	15	22,6	62,3	36,4	0,4	214,6
ASIA	33671	5,2	13,7	62633	15,9	34,3	86,0	206,3	150,4
AFGHANISTAN	223	19,6	30,4	466	20,1	16,5	109,0	2,6	-45,7
BANGLADESH	303	17,3	43,8	1195	24,1	25,9	294,4	39,3	-40,9
BRUNEI	1023		6,5	2184	11,7	32,9	113,5	ERR	406,2
INDONESIA	7130	5,7	22,7	21773	10,6	23,8	205,4	86,0	4,8
IRAN	20114	0,8	4,1	11757	22,8	37,5	-41,5	2750,0	814,6
MALAYSIA	3847	23,2	34,7	21153	14,4	44,3	449,9	-37,9	27,7
MALDIVES									
PAKISTAN	1031	18,6	55,0	4105	31,3	34,5	298,2	68,3	-37,3
TOTAL	131548	30,5	19,2	168145	26,9	35,1	27,8	-11,7	82,8

* 1975 or first available year. ** 1988 or last available year.

Annex II

OIC EXPORTS - 1975/1988

Countries	1975* World Mios US$ (1)	1975* EEC % (2)	1975* LDC % (3)	1988** WORLD Mios US$ (4)	1988** EEC % (5)	1988** LDC % (6)	Variation (1988/1975) WORLD 4< >1	Variation (1988/1975) EEC 5< >2	Variation (1988/1975) LDC 6< >3
MAGHREB	13646	63,8	13,2	25850	61,2	13,9	89,4	-4.2	5,3
ALGERIA	5974	66,0	9,3	7397	57,8	11,7	23,8	-12,4	25,8
LIBYA	3542	63,2	13,1	8382	64,8	9,9	136,6	2,5	-24,4
MAURITANIA	165	57,5	30,5	213	74,6	12,0	29,1	29,7	-60,7
MOROCCO	2547	57,2	21,0	5492	55,1	21,2	115,6	-3,7	1,0
TUNISIA	1418	68,9	13,7	4366	66,9	16,1	207,9	-2,9	17,5
S/SAHARA AFRICA	2363	64,6	19,2	4774	58,8	18,7	102,0	-9,0	-2,6
BENIN	64	65,4	19,0	288	54,8	21,1	350,0	-16,2	11,1
BURKINA FASO	151	57,3	27,2	288	44,9	36,0	90,7	-21,6	32,4
CAMEROON	598	72,2	11,9	1749	64,7	14,9	192,5	-10,4	25,2
COMOROS									
DJIBOUTI									
GABON	446	83,3	6,5	686	74,6	4,4	53,8	-10,4	-32,3
GAMBIA									
GUINEA									
GUINEA BISSAU									
MALI									
NIGER	99	46,4	34,0	345	42,0	26,7	248,5	-9,5	,21,5
UGANDA									
SENEGAL	581	58,1	26,7	1023	53,5	19,4	76,1	-7,9	-27,3
SIERRA LEONE	159	46,5	20,7	166	40,5	41,4	4,4	-12,9	98,6
SOMALIA	155	47,1	30,1	112	43,2	37,8	-27,7	-8,3	25,6
SUDAN									
CHAD	110	59,0	28,9	117	59,2	31,2	6,4	0,3	8,0
GCC	11518	32,0	29,2	42581	34,2	10,9	269,7	7,0	-62,5
SAUDI ARABIA	4141	25,9	33,3	20258	33,9	23,0	389,2	30,9	-30,9
BAHRAIN	1158	19,2	59,6	3479	21,1	55,8	200,4	9,9	-6,4
U.A.E.	2754	38,0	21,3	8700	38,0	18,8	215,9	0,0	-11,7
KUWAIT	2388	37,2	16,6	6896	36,4	19,9	188,8	-2,2	19,9
OMAN	671	42,0	33,0	2149	32,4	34,0	220,3	-22,9	3,0
QATAR	406	43,1	20,9	1009	42,1	19,9	170,7	-2,3	-4,8
MIDDLE EAST (Other Countries)	11384	41,8	20,6	30202	37,2	24,9	165,3	-11.0	20,9
EGYPT	3934	35,3	15,9	7448	38,6	14,8	89,3	9,3	-6,9
IRAQ									
JORDAN	731	36,6	29,1	2747	29,2	39,4	275,8	-20,2	35,4
LEBANON									
PALESTINE									
SYRIA	1669	42,2	22,2	2626	38,3	27,4	57,3	-9,2	23,4
TURKEY	4640	49,5	20,5	15788	38,4	26,1	240,3	-22,4	27,3
YEMEN	410	24,5	44,4	1593	31,0	30,4	288,5	26,5	-31,5
ASIA	12401	0,0	27,3	43257	16,0	3,1	248,8	-20,1	21,3
AFGHANISTAN	350	20,9	23,9	622	4,8	9,0	77,7	-77,0	-62,3
BANGLADESH	1333	14,6	37,3	2773	13,1	49,8	108,0	-10,3	33,5
BRUNEI	270	21,9	28,4	653	23,8	38,3	141,9	8,7	34,9
INDONESIA	4770	19,8	19,4	16360	15,7	31,1	243,0	-20,7	60,3
IRAN									
MALAYSIA	3525	20,6	31,9	16232	12,8	33,1	360,5	-37,9	3,8
MALDIVES									
PAKISTAN	2153	22,2	31,6	6617	25,8	33,1	207,3	16,2	4,7
TOTAL	51312	41,2	22,1	146664	35,0	21,1	185,8	-15,0	-4,4

* 1975 or first available year

** 1988 or last available year

3

THE SINGLE EUROPEAN MARKET AND ITS IMPLICATIONS FOR THE COMMUNITY AND THIRD WORLD COUNTRIES

Patrick Renauld'

The Single European Act is associated with 1992, and very often this is considered to be either a beneficial or a worrying date.

It seems to me important to briefly explain to you the why and the wherefore of the Single Act, because it is often considered as the starting point of the construction of a fortress, whereas, on the contrary, it is meant to be the destruction of walls.

I would like to point out that the Single European Act is only a step and a stage within a process being experienced or to be experienced in the forthcoming years by numerous economic areas, among which, are your countries.

Let us go back to the beginning of the 1980. At that time, the member states of the Community coordinated their activities in Brussels, but, in several fields they continued to act separately and work as isolated economic units. After 25 years, it was realized that the Community did not make up a Single Market either in the field of goods and services or in that of capital and individuals.

Without a common economic framework, the Community was unable to fight against its biggest problems which are: the lack of competitiveness of its firms, low productivity and inadequate innovations.

Pressures continued to increase on member states to halt this decline. It was entrepreneurs, economists and politicians who realized that Europe's revival required the establishment of a real internal market.

* Counsellor to Delegation EEC, Rabat.

Thus, in 1985 the Commission was entrusted with the task of submitting concrete proposals. At the end of the same year, it published a white book in which it defined a program and fixed a precise calendar.

The white book assessed all the physical, technical and fiscal barriers hampering the activities of the market. It proposed 300 legal regulations to abolish these barriers and underlined the global aspect of these proposals; because, if there were only one reason to keep the system of frontiers, then, everything would prove abortive.

Singled in 1986, the Single Act requires that the Community's internal market be established before 1 January 1993.

It provided the Community with the necessary means to do this by replacing the unanimity vote with the majority vote and by granting the European Parliament a more important role in the legislative process. Furthermore, it provided the political will to put an end to the portioning of the market by abolishing the physical, technical and fiscal barriers which exist within the Community.

I. PHYSICAL BARRIERS

It is of course in internal barriers of <u>the non-market</u> nature which are most visible. The frontier check of individuals and goods is dictated by fiscal, commercial, economic and statistical considerations and by the necessity of protecting health and ensuring security.

All obstacles involving the Community's frontiers should have disappeared in 1967 with the common customs tariff and the Community transit, but, other checks were so numerous that these measures had no effect.

Action was then planned in two stages:

1. To simplify frontier checks and make them, when possible, outside the frontiers. A single document was drafted for this purpose.

2. To coordinate policies and set up common regulations to abolish controls by 1992. In 1991, six member states

established the Schengen process involving the abolition of duplication in export and import declarations.

All of these checks while administrative also pertain to trade policy.

Some controls are justified by the existence of quotas. To eliminate these controls, the Community is compelled to define a new common orientation while avoiding economic disturbances between member states.

These controls are also dictated by statistical needs. At present, import/export data are collected by customs posts. Another data collection system is now under consideration.

H. TECHNICAL BARRIERS

Due to differences in technical norms, numerous products should be manufactured separately for each country according to specific norms (e.g. electrical plugs). National norms and rules are undeniably useful in so far as they guarantee a minimal level of product safety for the consumer and environment. But unfortunately, sometimes they also serve as a pretext to protect national markets from the products of other member states. It is regrettable that these norms which have such harmful effects share the same laudable objective, namely, the protection of life, health and environment, and that basically there is no real reason for this war of norms to continue. To eliminate these controls, sanitary and technical norms should be harmonized and this harmonization can only be made at the level of the greatest common denominator.

Foreign firms fear that this will lead new restrictions to trade. But, one should not forget that this is also a concern of Community firms.

If we estimate for each European or foreign firm the cost of research, development and marketing entailed by the difference in national norms, we will realize that harmonization or if necessary a mutual,recognizance is beneficial to all.

At this point a word on mutual recognizance is in order. It was quickly realized that harmonization is a long and complex process. In certain case, at the end of lengthy negotiations, the norms were no longer of current interest.

Therefore, the Commission proposed for harmonization only in important and essential fields such as health and safety. But, this harmonization will only define fundamental criteria in the form of general levels of protection while technical specifications will be worked out by the European institutes of standardization. National regulations which do not deal with fundamental criteria will automatically be subject to the system of mutual recognizance.

Food legislation is a good example of this standardization problem. It is natural that the consumer should be sensitive to the problems of food denaturing and misleading information. It is also in the interest of consumers to ensure the free movement of products. The Commission does not attempt to harmonize all national requirements. Its program, merely defines the basic Community regulation rule concerning consumer protection as regards additives, preservatives, packaging and labelling.

The mutual system of recognizance will be applied to norms and to services, and this is very important when we realize that the liberalization of services is less advanced than that of goods and that services account for 57% of the added value of the Community's economy.

I would like to cite the case of financial services which will be subject to the same general principles, and I will focus on ne of the most protected sectors of the Community: transport which accounts for 7% of the GDP of the EEC and is provided with strict national policies and regulations. Some steps have been taken to achieve free competition, but more efforts need to be exerted in this field.

III. FISCAL BARRIERS

The frontier check is undoubtedly most important for the revenue authorities. Goods go through frontiers accompanied by a thick file of documents which are used for tax collection: value-added tax (VAT) and excise. In a borderless Europe, tax collection will be made by other means.

Right from the start, the aim has always been the harmonization of indirect taxes in the Community. In fact, the proper working of a common market worthy of the name requires the abolition of all factors which distort competition and create artificial differences in prices between member states. Gaps in indirect taxation are one of these factors.

The Community does not start from scratch: appreciable results have already been achieved in the fiscal field, the main one of the course being the adoption of VAT as common taxation on turnover in the Community. Nevertheless, there are still big differences between member states as regards the export-import ratios of VAT and even more in the structure of the main excise duty.

It is precisely to protect these differences and to make them respected that countries keep fiscal controls at their frontiers.

We should remember that stagnation and lack of competitiveness are the real danger for the value of fiscal receipts for the financing of social and economic needs. It is to prevent and. even preserve the erosion of wealth, the very source of tax revenues, that we should complete the construction of the domestic market and make it a strong and integrated basis for expansion and growth.

But, if it is good for European economy and enterprise, is it also good for your enterprises. It is obvious and we already have the proof of that : each fiscal harmonization in the Community has reduced the general level of external taxation.

IV. CONCLUSION

The Single Act speeds up the integration process, but it is only the administrative part of the action.

The main role in the completion of the Single Market should be played by enterprises. First of all, the way of thinking of industrial and commercial enterprises of all member states should be systematically and genuinely European. Very often efficient cooperation between countries depends less on Community legislation than on the simple will to work together in a competitive environment, which is better than remaining sheltered in a national enclave. If national enterprises are willing to face the competitiveness of the international market, they should reconsider their methods of production and commercial practices. To meet the external challenge implies the development of efficient European enterprises of an international standard able to supply large quantities of the most advanced products at a competitive price. Instead of small enterprises supplying only their local area, they will be able to find other interesting markets throughout the Community. The establishment of a Common Market would be the greatest contribution of all time to the regeneration of the competitiveness of European industry. The companies which will consider Europe as their internal market and accordingly organize their management techniques, their production, their development research and their commercial strategies, will be rewarded for their efforts.

Enterprises should themselves actively lead campaigns to bring about the changes necessary for establishing the Single Market. Without the pressure of enterprises, strict nationalism and protectionism will triumph and the barriers will still remain.

I am personally convinced that what is valid for European enterprise is also valid for the enterprise of the member countries of the Organization of the Islamic Conference.

COMMENTS*

Mustapha El Baze**

Mr **Houki, the Deputy** Director General of ICDT, has presented a well-argued paper which consists of the following four sections:

1. The first section presents the parties concerned, namely, the Islamic world with its 44 countries representing about 1.4 billion inhabitants, marked by a disparity at the economic level and the EEC with an average continental revenue five times higher than that of the Islamic world.

2. In the second section the author presents the legal framework governing the OIC-EEC commercial relations:

    a) Association agreement by way of exception (Turkey)
    b) Global cooperation agreements (ACP-Maghreb, etc)
    c) Cooperation agreements (Middle East - GCC etc)
    d) No agreement

3. In the third section the author deals with foreign trade through statistical data:

    a) Foreign trade of OIC countries
    b) Foreign trade of the EEC
    c) OIC-EEC trade

4. Finally, the fourth section is devoted to the advent of the Single Act (signed in 1986) with its legal and commercial implications.

At the end of his analysis, the author suggests two strategic axes in order to reinforce and promote the commerce of OIC countries. The first axis

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* on the papers of Mr. Houki and Mr. Renauld. **

Professor, ISCAE, Casablanca, Morocco.

is oriented towards OIC-EEC relations, while the second deals with the reinforcement of intra-OIC cooperation.

This paper contained certain apprehensions concerning the future predispositions of EEC countries in terms of their future policy of alliance (EFTA-Eastern Europe); and naturally, it was in the paper of Mr. Renauld, the EEC Representative, that I personally sought the answer to these apprehensions. On this point, the author asserts unequivocally that we often have a tendency to represent the Single Act "as the starting point of the construction of a fortress, whereas, on the contrary, it is meant to be the destruction of walls". The following barriers are to be dismantled:

1. Physical; some of which are linked to the existence of the quota systems of distribution (AMU, iron metallurgy).
2. Technical; through normalization and mutual recognition whose effects are ultimately beneficial.
3. Fiscal; with the arrangement of internal VAT.

The author concludes with the role of firms in the building process of the Single Market, that "what is valid for European enterprise is also valid for the enterprise of the member countries of the Organization of the Islamic Conference".

Despite the excellent quality of the two paper, I will allow myself to make two key remarks and give two suggestions that I submit to the appreciation of the participants.

1. The first remark underlines the commercial fragility and vulnerability of OIC countries viewed as an economic system in terms of:

   a) market: the OIC represents only 6% of world trade, and this in spite of the fact that almost all transactions (90%) take place outside of the OIC.
   b) geographic concentration (in some markets) and technical concentration (in some products).

2. The second remark deals with the remarkable asymmetry of the OIC countries and those of the EEC. This asymmetry is seen in terms of:

a) revenue. The EEC revenue per inhabitant is five times higher than that of the OIC, but we must also note that the bottom revenue observed in the EEC is 85 'times higher than the one recorded in the OIC (group of 21), while the top revenue in the EEC is only 10% higher than that of OIC countries.

b) trade. The OIC represents only 4% of the foreign trade of the EEC, but the latter manages 31% of the external transactions of OIC countries. This imbalance is accompanied in the majority of cases by an important deficit in the balance of trade.

From these two remarks, I allow myself to draw the following conclusions and suggestions:

1. OIC countries can only claim to favourably influence commercial negotiations with other groups if they succeed beforehand in promoting and reinforcing their own structures and intra-OIC commercial transactions. It is only in this way that they can create an "active system", a more autonomous system with greater latitude. For this purpose, it is necessary to transform the present intricate structures into well-connected structures.

   On the level of trade, a suitable commercial level of connection would be around 20% to 25%. We estimate that a level of commercial interdependency of that order might confer identity and flexibility to the OIC system.

2. Any commercial negotiation cannot be fruitful unless it relies simultaneously on industrial and financial negotiation; in other words, the promotion of investment should be integrated. European investment which operates in Morocco, for example, generates an export movement towards Europe which leads to a partial absorption of the quota reserved for Morocco (in the case of textiles) and also slants the very content of the agreements (self-limitation). On the other hand, it generates a flow of imports of capital goods from Europe thus participating in the commercial life of Europe. Nowadays, the commercial and financial spheres are so overlapping that it would be inappropriate to dissociate them in any negotiation.

Developed countries react towards all commercial uncertainties (quota systems, protection, etc.) by liberating direct investment, something which developing countries cannot do because they suffer from the rationing of capital. Some industrialized countries (for example, Japan) seek to develop establishments inside the frontiers of the Single Market so as not to have to negotiate entries.

In this impressive flow of capital, the part allocated to the rest of the world is quite meager. Here area a few figures:

1. In the net flow of US$ 45 billion of direct investment realized by Japan in 1988 (US$ 33.3 billion in 1987), the part of Africa did not exceed 0.9% (46% went to North America and 19.8% to Europe).
2. In 1988, Germany liberated about D.M. 15.3 billion of which 43% went to Europe, 43% to the USA and only 1.2% to the whole of Africa.
3. France with Fr.127 billion devotes the greater part to the EEC (46%), the Maghreb benefitted only from 0.5% of this flow (1987).

The data concerning financial contributions (public assistance, direct investment flow, export loans) confirm this marginalization : all the flows coming from CAP countries which reached US$ 66 million in 1975 are still almost exactly at the same level (US$65.2 billion).

The commercial marginalization runs the risk of being maintained by industrial marginalization.

Now, only cooperation based at the same time on the industrial and commercial dimension is durable and fair.

THE EUROPEAN COMMUNITY AND THEISLAMIC WORLD: CHALLENGES FOR NORTH AFRICAN AND OTHER ISLAMIC COUNTRIES

Mohammed Rashiduzzaman* I.

INTRODUCTION

Profound changes in the political and economic power structure have been taking place around the world in recent years. It is not enough to say that the cold war has withered away, communism has collapsed in Eastern Europe and the USSR, ad the world power system is more multipolar than ever before. The old concepts of the nation-state and the viability of its constituent elements such as territory, population, government and especially sovereignty are being undermined by, the rapid change in national and international political economy. Neither the economic self-sufficiency nor the political stability of one state can be achieved only within its own boundaries. -International trade has made gigantic strides in recent years and there is hardly any state, large or small, rich or poor, which can claim to be entirely self-sufficient. Twelve Western European countries are joining an integrated economic community in 1992 better known as the European Community (EC) by comprising their traditional `sovereign power'. Such economic cooperation will bring political interdependence with other states and diminish the political power traditionally enshrined in the national government.

The EC will not only transform the national political economies of member states, but it will also seriously impact the trade and commerce of developing economies including North African, Middle Eastern and Asian Islamic countries. This paper examines the challenges of the Single Market of the EC and its effects on the Islamic world with a focus on Sub-Saharan and North African economies (Appendix 1).

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II. EC AND TECHNOLOGICAL POWER SHIFT

Since the end of World War II, the world has been **divided** into capitalist and communist, rich and poor and North and South. The old division seems to be fading and a new topology has been emerging. The world now seems to be divided between the fast and slow. (1 Alvin Toffler, `Toffler's Next Shock', World Monitor, November 1990). Modern economies are bound to be fast economies backed by advanced technologies which speed production. It is not even enough to produce speedily; the transactions and distribution of goods and services must also speed up. Investments, transformation of ideas into production, marketing, movement of capital and even, more importantly, information flows and the application of knowledge must also move fast. Only the faster economies will grow and generate wealth and prosperity; the slower ones will stagnate.

The EC and creation of one market should hg viewed in this context of `power shift' in the global political economy. Indeed, EC is the culmination of the scientific and industrial revolution of Europe.

Normally, agricultural countries and developing economies move slowly. A combination of social traditions, rituals, poor technological infrastructure and primitive communications slowdown their economies. The quickening of the economic responses of high technologies in the EC nations will have far-reaching overt and covert consequences for the low technology nations of North Africa, the Middle East and Asia which are mutually linked by the export and import of goods and services.

With its technological advantages, the EC will be the fast economy. To be out of touch with the fast moving EC economy is to be excluded from it in the future. Countries which want to sell to the EC must become more active. Orders for goods delayed by developing countries would mean the end of business for those nations. The imports to be Single European Market will be subject to the unification or technical rules and standards. The LDCs in general and the Islamic countries under review should be fully aware of those technological challenges in order to continue their trade with the EC.

As a unified market economy backed by high technology, the EC countries will be inclined to `do more with less'. With advanced technology in the search for alternative energies, EC countries may be able to slow down their import of fossil fuel. That will affect the export of petrol and petroleum products to European countries. The same prospect may be true of those North African exports for which advanced scientific knowledge will be able to find substitutes. It is believed that advanced economies may soon be able to create whole arrays of customized materials such as `nano-composites' virtually from scratch. (2: Ibid). If EC countries achieve such scientific breakthroughs, they are likely to become less dependent on the import of bulk raw materials from abroad. That will certainly affect the export of raw materials from North African countries.

Faced with the new `fast' technologies, LDCs which export products such as textiles harnessing the advantage of cheap and less skilled labor will be seriously threatened in the long-range scenario. Among the Muslim countries of the Third World, Bangladesh and Turkey which now export garments to several countries in Europe are most likely to be affected in the future. Confronted with the vast technological possibilities in the EC, cheap labor will not guarantee the existing market advantage of Muslim countries in North Africa, the Middle East and Asia.

To face the technological challenges of the EC and the advanced economies, Muslim countries need to make long-term planning, decide priorities and allocate necessary resources for achieving those goals. In the new world, knowledge is the ultimate resource which creates wealth. Modernization of education with emphasis on science and technology is of the highest priority to the Islamic World.

Some newly industrialized countries, such as, South Korea and Taiwan, found a short-cut by `stealing' modern technology. Copying technological secrets is one of the pursuits Islamic countries need to pursue vigorously, and they can do kit collectively as will as unilaterally. Islamic countries can set up a consortium to speed up their technological advancement.

Another strategy is to reverse the brain drain from Muslim countries. Engineers, scientists, doctors and electronic specialists from many Muslim countries have migrated to industrialized states in recent years. Nearly half of the new generation of North American engineers and technicians are immigrants from Asian and other developing countries. To obtain `wealth making' know-how is to reverse the brain drain. This can be done by attracting researchers and technocrats from the countries of the North. A special Islamic fund for technology transfer is worthy of consideration by Muslim countries.

Coupled with the hunt for `wealth making' know-how, Muslim countries can share entrepreneurial minorities who can energize host economies if opportunities are provided. Such groups include the Aga Khanis in Pakistan. Bangladesh and Africa, the Lebanese and Syrians in West Africa and the Palestinians in parts of the Middle East. There is established evidence that such dynamic minorities can bring vigor to the economy by their hard work, innovative ideas and skills and desire to take risks and make money. One way to achieve such a goal is to ease the immigration and travel restrictions among Muslim countries. EC countries have already started borderless travel and entrepreneurial activities. There are already some attempts to establish joint enterprises between outside entrepreneurs and the nationals of Muslim host countries. However, such efforts are geared more to the advantage of the host countries leaving inadequate incentives for outside entrepreneurs.

To match the advantages of the Single Market in Europe, North African countries and most other Islamic countries must quickly modernize telecommunications and transportation. Fast moving telecommunications technologies are rendering old facilities obsolete. With international help it is feasible to modernize telecommunications throughout the Islamic World. Transportation infrastructure is usually more costly and time consuming but not impossible to achieve. North African countries have enormous potential for the tourism industry. North and West Africa are already experiencing a large influx of tourists from Europe, and this can be further expanded with the modernization of telecommunications and transportation.

III. ECONOMIC CHALLENGES: FREE TRADE OR `FORTRESS EUROPE'?

Most of the Muslim countries of North Africa, the Middle East and Asia are connected with Europe by trade and other forms of economic ties. Whatever happens in Europe will certainly affect those countries. Currently, the economic conditions of Europe are far from being satisfactory. From the Soviet Union to Eastern Europe, economic catastrophes seem inevitable. There is at present economic recession and stagnation in most EC countries. Industrial production in Britain is down by 7% and unemployment stands at 8%. Interest rates are high and inflation is galloping. In the first six months of 1991, 23,000 British businesses went bankrupt. What was formerly East Germany has not yet been able to reap the benefits of capitalism brought by its union with West. Germany. Unemployment in the former East Germany has recently exceeded 40%.

After five years of relative prosperity, France is also experiencing an economic downturn. In 1991, the French economic growth rate was under 1.5% and unemployment is now about 10%. The Italian economy grew by only a bare 2% in 1990. This is the worst economic downturn for Italy since 1993; yet, Italy is in a relatively better position than other industrialized countries.

There is anxiety among industrialized countries about the economic downturn. The G-7 countries are pursuing policies which may be summed up as: (a) reduction of interest rates and increased money supply; (b) improvement of educational standards; (c) lower unemployment; (d) streamlining the administration and management of government offices; (e) privatization and deregulation; (f) reduction of the debt burden of the Third World so that the economies of Third World countries will be stimulated and they will be able to buy goods and services from G-7 countries; and (g) help for the USSR and Eastern Europe.

Will European economies improve when the EC's Single Market goes into full operation in 1992? Will G-7 countries reduce the debt burden of the Third World? These questions should be of great concern to the Islamic World. If European countries do not improve heir economy, their demands for goods from North Africa, the Middle East and Asia will fall. Attempts by G-7 countries to reduce international debt may fall short of boosting the economies of LDCs. Oil exporting countries of the Middle east and North Africa without heavy international debt to G-7 countries have little to gain from such attempts to reduce the debt burden.

Some beneficial effects of the EC are easy to anticipate. The EC can absorb more manufacturing goods from Muslim LDCs. The EC will be a larger market and can absorb more trade from LDCs. The EC is believed to be willing to remove trade quotas. However, there is no guarantee that the lifting of quotas will continue for a long time, and if the economic downturn persists, EC trade policies are bound to change.

Some of the critical areas of the EC are:

- "agricultural subsidies, such as variable levies, whose purpose is to impose a charge sufficiently high to raise imported product prices above EC price levels,
quantitative restrictions on manufactured goods,
export subsidies and anti-dumping actions,
- custom barriers, and
- government procurement". (3: Sergio Alessandrini, `Systemic Changes in Europe and Economic Implications for LDCs', *The European Journal of Development Research*, December, 1990).

These critical issues of the EC will also affect North African Muslim countries as well as LDCs in general. Agricultural subsidies represent a major concern for North African countries which export agricultural products to Europe.

Some countries which export textile products to Europe and North America are also concerned about various kinds of anti-dumping actions contrived by industrialized countries. One such Muslim country concerned with possible EC restrictions is Bangladesh. Bangladesh, with a per capita income of $150, is one of the world's poorest countries. The people of Bangladesh are annually visited by floods, cyclones and typhoons of truly epic proportions. Even the most protectionist businessmen must ponder what export from Bangladesh could threaten or materially injure an EC or United States industry. Obviously, the Americans or Europeans have little to fear from autos or chips being imported from Bangladesh. Yet, the US textile industry fears that Bangladesh manufacturers of `industrial wiping cloths' (better known as just plain "rags") are dumping their products in the US market. (4: William Lash, 'US Textile Industry Fears Bangladesh's Rags', *The Wall Street Journal*, June 19, 1991). The allegedly dumped rags from Bangladesh represented a mere $2.46 million in US sales in 1990 and the Bangladesh Government subsidy amounts to no more than 0.02% of the total cost (5:Ibid). Will there be similar fear from EC textile industries? These textiles are usually produced in poor countries, many of them faced with economic disaster.

One legitimate concern for Muslim countries is a variety of `content requirements' which might be imposed by the Single Market of Europe. This can emerge from their genuine concern for the standardization of products or as merely a bunch of restrictive rules in disguise. This is what is genuinely feared in terms of the EC becoming `Fortress Europe' and denying entry to the Single market. The EC has already taken such steps against Japanese automobiles which are viewed as a major threat to the European car industries. Earlier this year, behind closed doors, the EC decided on a scheme which limited the number of Japanese cars that Europeans will be able to buy for the rest of the century. *(6: The Economist*, 4-10 May 1991). A political show-down by EC protagonists can do the same on the pretext that European textiles or farmers need further protection form outsiders.

The EC's impact on North African, Middle Eastern and Asian Muslim countries must also be analyzed in the light of the catastrophic changes sweeping through Eastern Europe and the Soviet Union. What kind of economic and political understanding will develop between the EC and Eastern Europe and the Soviet Union or whatever happens to the territories recently known as the USSR ? The EC might decide to buy more agricultural products and low technology consumer products from Eastern Europe and the Soviet Union replacing traditional North African or Asian suppliers. To the extent that the EC moves towards helping Eastern Europe and the USSR, their commitment towards the Muslim countries of the Third World is likely to diminish.

LDCs in general and the Muslim countries of North Africa, the Middle East and Asia must press hard to ensure that the ECs Single Market remains open as much as possible to external partners.

IV. POLITICAL CHANGES, HEGEMONIC POSSIBILITIES AND PAROCHIALISM

As all of Europe passes through a period of tumultuous political and economic change, old security imperatives will also change. The classic bipolarity dividing Europe along capitalist and communist lines is no longer valid. The demise of the Soviet Union as a military and ideological threat will substantially alter old security arrangements. There will be a new NATO appropriate to the priorities of the EC. The new economic integration is deeply political and far from the ideal world of Adam Smith, where the size of the market determines the degree of economic efficiency. (7: Bjorn Hettne, `European Integration and World Development', The European Journal of Development Research, December, 1990). It is most important for the Muslim countries of North Africa, the Middle East and Asia to watch the changing patterns of future security arrangements driven by European integration and the so called `New World Order'.

One possible political and economic change, old security imperatives will also changed. The classic bipolarity dividing Europe along capitalist and communist lines is no longer valid. The demise of the Soviet Union as a military and ideological threat will substantially alter old security arrangements. There will be a new NATO appropriate to the priorities of the EC. The new economic integration is deeply political and far from the ideal world of Adm Smith, where the size of the market determines the degree of economic efficiency. (7: Bjorn Hettne, `European Integration and World Development', The European Journal of Development Research, December, 1990). It is most important for the Muslim countries of North Africa, the Middle East and Asia to watch the changing patters of future security arrangements driven by European integration and the so called `New World Order'.

One possible political and global security arrangement is to replace the current multipolarism by a new tripolar system consisting of the EC, Unite States of America and Japan. After the decline of the USSR and the Washington led victory in the Gulf War, the United Stares enjoys unique military prestige without any serious contender. The EC will become the new superpower through its economic integration and possible political union.

Is it really in American interests to promote a strong Europe that could become a formidable revival in influencing the Middle Eastern and North African political economy? Possibly, the Americans cannot stop the EC from becoming a single European power. The United States might even enter into a treat with the EC to keep Washington's influence strong in Europe. It is also possible that the EC and Japan could make a deal in exchange of greater access to Eastern Muslim countries.

One of the gloomiest possibilities is the hegemonic division of the world through which an integrated Europe will seek to dominate the Muslim countries of the Middle East and North Africa, its closest neighbors outside of the continent. However, such speculation may be premature. Hegemony is a relative concept of power. The prospective hegemonic power of Europe will perhaps be different from the colonial and post-colonial domination of the pre-and post-World War II decades. It would be fool-hardy for European countries to impose an old colonial type of hegemony. History does not repeat itself; the old colonial hegemony will not work in the world today.

Europe has vital economic interests in the Middle East and North Africa for which the integrated EC may take a more activist role in the area. The United States of America and the EC may not see eye to eye on the regional conflicts of the Middle East and North Africa and the two powers may pursue separate policies. European countries have been more supportive of the arabs in the Arab-Israeli conflict, and the Israeli government does not favor an important European role in its disputes with Arab countries. However, it may not be possible for the EC to present a unified foreign policy for a long time. The EC's confused and hesitant response to the Gulf crisis in 1990/91 led many to say that it needs to say that it needs to present a more coherent face to the rest of the world.

One reason is that the EC is not a federation in which a central government allows its component states no part in forming foreign policy. So far, the Community has followed the opposite path: it federalizes much economic policy but leaves foreign policy to member nations.

That might change in the future. During the 1991 Yugoslavian civil war, the EC pursued a more unified policy. There was a consensus that the EC should not get involved militarily but should try to find a political solution to the civil war between the Croatians and the federal troops in Yugoslavia: However, the EC may not be able to pursue a monolithic policy in the future.

There is also a danger of various forms of parochialism in Europe. It is well known that the European Community established in 1957 has taken a long time to mature. The Common Market of 1957 was limited to six neighbors: France, West Germany, Italy, Holland, Belgium and Luxembourg. France's Charles de Gaulle opposed Britain's entry into the Community. In 1972, three years the resignation of de Gaulle, Britain became a member. Many community leaders were fervent `Europeans' and spent the next ten years haggling with London about the amount of Britain's contribution to the EC's budget. While the Europeans tried to solve their `regional' problems, the world economy moved to global interdependence. Many European industries, such as steel and shipbuilding, declined, and Japan surpassed Europe in most areas of high technology. There are still ardent nationalists among EC leaders who may one day propose a `Europe for Europeans only'. To strengthen its position, the EC has established the European Monetary System (EMS) which will introduce a single currency for the 12 member nations. Britain opposes the single currency system, but most other member nations have accepted the idea. Once fiscal unity is achieved, the EC may become more inward looking. With 12 members, the EC today is far more heterogeneous. With Portugal, Greece, Spain and Ireland having less developed economies compared to other members, the EC has a "North" and "South" problem of its own. (8: Stanley Hoffman, `The European Community and 1992', *Foreign Affairs,* Fall, 1989). The poor members of the Community will not like cheaper competition from the African continent. Spain and Portugal can supply some of the agricultural products imported from Sub-Saharan countries. The weaker economies are likely to gain by fiscal unification through a single currency. It will also be an EC priority to diversity investments so that `poorer' members have a better share of the prosperity of the newly integrated regional economy.

As Europeans prepare for unity in 1992, nationalism has been rising with an accompanying upsurge in racially motivated attacks on foreign workers especially from North Africa. Algeria, Tunisia and Morocco continue to send thousands of immigrants to the Mediterranean's north shore despite tightened laws and more carefully controlled borders. Europe's demographics signal a new need for migrant labor, but simultaneously the restrictions on the rise. In the next few years, if the French human rights advocate Mark Halter is correct, politicians like Jean Marie le Pen, stumping on protectionist, nationalistic and tribal issues, will be more popular in Western Europe despite lip service to European unification. (9: The Christian Science Monitor, December 12, 1990).

Le Pen openly decries immigration from the former French colonies. In France most of the four million so-called foreigners are Arabs from North Africa. Le Pen maintains that foreign workers must go back home. As radical ideologies are on the decline throughout Europe, people seem to be more parochial identifying with narrow nationalism. So the radical ideals of leaders like Le Pen have a fertile ground in which to flourish. Germany has imposed restrictions on immigrant workers from Turkey. The British maintain a tight control on immigrants from Muslim countries like Pakistan and Bangladesh.

Politically, the Islamic World and the EC are facing similar questions which LDCs have raise through their demands for a `new international economic order'. In the 1970s, the Third World was' in a state of ferment demanding changes in the existing international economic order. (10: Nurul

Islam, `Revolt of the Periphery', A Rothko Chapel Colloquium, Toward a New Strategy for Development, Pergamon Press, 1979, p.171). Exports from LDCs, both agricultural and manufactured goods, face barriers to entry in the markets of developed countries; manufactured exports face trade restrictions which escalate or are `cascaded' according to the degree of processing. (II: Ibid). By the 1980s the so-called dialogue between the North and South virtually collapsed partly under the persistent refusal of the American administration to have any serious negotiations with the Third World. The future dialogue of the Islamic World with the EC may also meet the same fate.

V. THE ISLAMIC WORLD AND ITS STRATEGIES

The Islamic World spreading from Morocco to Indonesia is not a monolith with the same priorities for dealing with the EC. Nor will the EC deal with all Muslim countries in the same manner. The Islamic World must be aware of these realities in developing strategies for dealing with the economic problems of the EC's Single Market.

Among Muslim countries, the EC's priority lies with the Arab East - the half a dozen countries from Egypt to Iraq which hold 110 million people and half of the world's proven oil reserves. (12: The Economist, 6-12 February, 1988). There is a variety of political economy in the Arab East. Fifty million Egyptians (GDP per capita $1100) make a living out of the silver of cultivable land that borders the Nile. To the east, in Saudi Arabia, 12 million people (GDP per capita $7,500) make a comfortable living. Saudi Arabia, a conservative monarchy, borders Yemen, one of the poorest countries. To the east of Saudi Arabia are the oil states of the Gulf (GDP per capita in Qatar $16,500)*. Kuwait had one of the highest standards of living until Gulf War of 1990/91. With large oil reserves, Raw was a prosperous Arab country until the Gulf War which made Baghdad Kuwait's hated enemy. Syria does not have oil wealth, but it is an important military power and a major player in Middle East security and diplomacy. South of Syria lies the vulnerable Jordanian monarchy which is hard-pressed after the destruction of trade and cancellation of aid since the 1991 Gulf War.

* GDP figures are based on the Economist.

There is also a variety of political beliefs and systems in the Arab East. Baath secular socialists have ruled Raw and Syria. The Saudi Government uses the Qur'an as the fundamental law of the land. Jordan is a monarchy which recently introduced liberal democratic institutions. Saudi Arabia and the Gulf states practice free market economies.

Turkey, a Muslim country of the Middle East bordering Europe is half inside and half outside the EC. Can Turkey compete with EC in an open market ? The EC's clothing and textile makers are fully aware that but for import quotas, they would be swamped by Turkish products. Turkey can produce most basic consumer textiles cheaper than the Europeans. In the near future, Turkey will be producing fridges and televisions for export to Europe. Turkey also has the potential to sell cheaper agricultural products to European countries. Turkey already has hardworking and currently low-paid labor which can further develop its skill and management capacity.

History ties Turkey with Europe and there is a strong political leadership which wants to be a full member of the EC. Yet, there are psychological barriers between Turkey and Europe. Do the Turks feel a part of Western Europe ? How do Turks and Western Europeans feel about each other ? Since World War II, Turkey has been on the side of Europe and the United States. Yet, there are parochial forces within the EC which would like to keep Turkey out of the Single European Market.

Since the Islamic revolution in 1979 and the ouster of the Shah, relations between European countries and Iran have been ambivalent. Some European countries maintain close trade relations with Iran, but British and Iranian diplomatic ties have been stormy. When the Iranians held American diplomats as hostages, European countries condemned Tehran and took a tough stance against Iran. In the post-Khomeini years, Iranian leaders have made efforts to improve the country's relations with much of the outside world. The Gulf War and the fast moving changes in the Soviet Union have added new dimensions to the role of Iran in the Middle East. Unless the current pragmatic policies of Tehran are reversed, the EC is likely to improve its economic ties with Iran which is a potential market for European goods and technology.

The political leaders of North Africa. enjoyed popular support in the early days of their nationhood not only because the causes with which they associated themselves were popular, but also because most of them were beneficiaries of an economic windfall. Until most recently, these governments were able to obtain substantial funds without taxing their own population. (12: Lisa Anderson, `Liberalism in Northern Africa', Current History, April, 1990). Algeria and Libya had enormous revenues selling their oil. Both Morocco and Tunisia earned hard currency by exporting phosphates. Libya, Algeria and Tunisia introduced huge welfare programs including subsidized food, free education, housing facilities and medical allowances which today are causing heavy financial problems as their oil revenues flounder.

The welfare states of North Africa are now faced with profound demographic changes. There are more young men and women in those countries who are seeking higher education and employment. As economic growth falters, governments are under pressure to diversify their economy, and new priorities include increased agricultural production, fiscal reforms and decreased government expenditure.

The string of Muslim countries from Afghanistan to Indonesia are further away from the EC although not entirely cut off from the impact of the Single Market. It is too early to assess the possible relationship between the EC and Afghanistan once the civil war between the Mujahedeen and the Moscow-backed regime ends. Pakistan stands between Southwest Asia and South Asia and will be affected by the political and economic developments of the Middle East and Central Asia. Both Pakistan and Bangladesh, two Muslim majority countries in South Asia, have old historical ties with Europe. Both countries export textile products, hides and skin and certain agricultural products to Europe. The disruption of the 1991 Gulf War has caused a serious hard currency shortage for both Pakistan and Bangladesh. It is an imperative for those countries to sell their products abroad, and their access to the Single Market of the EC will receive high priority from their governments.

Malaysia is a prosperous Southeast Asian Muslim country whose exports include rubber, petroleum, timber and tin which are in demand throughout the industrialized world including Europe. There is substantial European investment in Malaysia. As the economy booms, Malaysia will want to export more industrial products including automobiles. Indonesia has the largest Muslim population in the world, with the challenges of population growth and building an economic infrastructure. Both Malaysia and Indonesia are linked with ASEAN by trade and various forms of economic and cultural ties.

No single strategy will work for all Muslim countries. Indeed, the Islamic World has yet to work out a comprehensive strategy for the implications of the Single Market created by the EC. Most Muslim countries belong to the so-called Third World. In broad terms, the interactions between the EC and the Islamic World will be a replay of the contradictions between developed countries and LDCs.

The relationship between the EC and the Islamic World hinges on trade policies. Most of the Muslim countries of North Africa, the Middle East and Asia would like to enhance earnings from the export of raw materials, manufactured products and agricultural goods. The so-called Uruguay Round of negotiations in progress are of great significance to LDCs including the Islamic World. The Uruguay Round has been delayed over the reluctance of Western Europe to open up its agricultural markets. `If the Uruguay Round should fail, a new wave of protectionism could destroy our hopes for a better future', so said US President George Bush in a recent address to the UN General Assembly (13: The Christian Science Monitor, September 25, 1991).

In recent years, the conventional wisdom of `free trade' has been effectively renounced by affluent countries. Since 1986, of the 102 members of GATT, 30 developing countries have unilaterally slashed trade barriers. (14: The Economist, September 21-27, 1991). Such countries include several Asian nations among them a poor Muslim country like Bangladesh. During the same period of time, protectionism has been on the rise in America and the EC. GATT recently counted 284 discriminatory export-restraints imposed by EC countries and America. (15: Ibid). The so-called anti-dumping actions practiced by those countries are also disturbing as these are subtle devices to cut off foreign competition.

Realistically, the EC's Single Market does not offer enormous prospects to LDCs in general and the Islamic World in particular. Even if present trade policies remain unchanged, the EC's Single Market will give only a modest boost of 7% ($10 billion a year) to the export by LDCs to the EC. (16: IBID). Any switch to protectionism will destroy even that modest gain.

Earlier this year, a Bangladeshi leader said that Muslim countries should set up a `common market' of their own. It was an expression of concern of a poor country in the Islamic World whose economy depends on the export of certain manufactured and agricultural products, the supply of manpower to the Middle East and foreign aid from Western nations as well as oil rich Arab countries. The idea of an Islamic common market, though not yet crystallized, may become one of the options many Muslim countries will consider.

Throughout the Islamic World, there are large public sectors mainly under bureaucratic control. To get into the ED's Single Market more effectively, North African, Middle Eastern and Asian countries will be under pressure to privatize the public sector in most Muslim countries. Two reasons can be offered for the slim prospects for massive and speedy privatization: first, in most Muslim countries, public sectors constitute nearly half of GNP. Secondly, entrepreneurs in these countries do not have the skills and resources to manage the large public sectors now held by the government. In the foreseeable future, private sectors must progress gradually before they can organize themselves into giant companies to manage these public sectors.

APPENDIX I

SELECTED SUB-SAHARAN AND NORTH AFRICAN COUNTRIES WITH LEADING EXPORTS AND IMPORTS

ALGERIA	
Principal exports	**Hydrocarbons, crude petroleum, petroleum products, natural gas, wine, tobacco and foodstuff**
Exports mainly go to	**USA, Germany, France, Italy, Netherlands, Spain, Romania, Japan and Belgium**
Principal imports	**Capital goods, semi-finished goods, food and tobacco, transportation equipment, consumer goods and raw materials**
Imports come from	**France, Germany, Netherlands, Italy, USA, Japan, Spain Belgium, Canada and U.K.**
CHAD	
Principal exports	**Cotton, live cattle and frozen bovine meat**
Exports mainly go to	**USA, Germany, Portugal, Cameroon, France, Italy, Spain and Japan**
Principal imports	**Petroleum products, cereals, pharmaceuticals, chemicals, machinery, transport and electrical equipment, etc.**
Imports come from	**U.K., USA, Italy, France, China, Netherlands, and Germany**
NIGERIA	
Principal exports	**Crude petroleum, cocoa, rubber and palm kernels**
Exports mainly go to	**USA, Netherlands, Germany, U.K. and Ghana**
Principal imports	**Machinery and transport equipment, manufactured goods (mostly iron and steel products), textile and paper products and chemicals**

Imports come from	U.K., USA, Germany, France, Japan, Netherlands and Italy
LIBYA	
Principal exports	Crude petroleum
Exports mainly go to	Italy, Germany, Spain, Switzerland, Netherlands, and U.K.
Principal imports	Machinery and equipment, transportation materials, consumer goods, food and live animals, chemicals and vegetables
Imports come from	Italy, Germany, Japan, U.K. and Austria
MALI	
Principal exports	Cotton and livestock
Exports mainly go to	France, West Germany, UK, Belgium, Luxembourg, Portugal, Italy, Netherlands, and Niger
Principal imports	Machinery, appliances, transportation equipment, petroleum products, construction materials, food products, chemicals and pharmaceutical products
Imports come from	France, USA, Germany, Italy, Senegal, UK, Belgium, China, Hong Kong, Japan, Pakistan and Switzerland
EGYPT	
Principal exports	Cotton, crude petroleum and refined petroleum, leather and leather products
Exports mainly go to	Italy, Israel, Romania, France, USSR, Netherlands, Greece and Japan
Principal imports	Machinery and transport equipment, food and electronics
Imports come from	USA, Germany, Italy, France, Japan, UK, Spain, Netherlands and Australia

NIGER Principal exports	Food, vegetables and live animals
Exports mainly go to	France, Japan, Nigeria, Spain and Germany
Principal imports	Food, chemicals and petroleum products
Imports come from	France, Nigeria, USA, Germany and Japan
SUDAN Principal exports	Cotton, gum Arabic, sheep and lambs, sesame seeds, hides and skins
Exports mainly go to	Saudi Arabia, Thailand, UAE, Italy, Yugoslavia and Japan
Principal imports	Transportation equipment, manufactured goods, food and tobacco, chemicals, raw materials and textiles
Imports come from	Saudi Arabia, U.K., Germany and Japan
MAURITANIA Principal exports	Fish and iron ore
Exports mainly go to	Italy, Japan, Belgium, France, Spain, U.K., Germany, Algeria, Portugal, Senegal, Greece, Turkey and USA
Principal imports	Machinery and transport equipment, food, crude petroleum and petroleum products
Imports come from	France, Spain, Germany, USA, Senegal, Algeria, Thailand, China, Egypt, Italy, Belgium, Netherlands, Japan, Denmark, Canada, India and South Korea
MOROCCO Principal exports	Food, beverages and tobacco, phosphate, phosphoric acid and clothing
Exports mainly go to	France, Spain, West Germany and India

Principal imports	Petroleum, food, beverages and tobacco, vegetable oil and chemical products
Imports come from	France, Saudi Arabia and Spain
TUNISIA	
Principal exports	Clothing and accessories, petroleum and petroleum products, electrical machinery, cotton textiles, shoes, rugs, etc.
Exports mainly go to	France, Germany, Italy, Spain and USA
Principal imports	Petroleum products, textiles, plastic materials, chemical products and pharmaceutical products.
Imports come from	France, Germany, Italy, USA, Algeria, Netherlands and U.K.
SENEGAL	
Principal exports	Petroleum products, calcium phosphate, canned fish, fresh or frozen fish, cotton fabrics, peanuts, oilcake and footwear
Exports mainly go to	France, Mauritania, UK, Italy, Spain, Japan and Mali
Principal imports	Crude petroleum and petroleum products, machinery and transport equipment, metal products, cereals, pharmaceutical and chemical products
Imports come from	France, Nigeria, USA, Germany, Spain, Italy, Japan and Netherlands

Sources: The African Review, Britannica World Data and The Economist.

COMMENTS

A. Drissi*

A NEW CLASSIFICATION : FAST COUNTRIES/SLOW COUNTRIES

Dr. Rashiduzzaman introduces a new typology of countries by classifying them as fast countries/slow countries, as the former classifications - capitalist/communist, rich/poor, North/South - are no longer operative.

He refers as to one of Alvin Toffler's theses, formulated in his latest work "Power Shift", which stresses the power of information and knowledge. In this sense, the EEC will more and more be a "fast" entity. Thanks to its scientific and technological capacity, the EEC can "make more with less";. that is to say, it can develop alternative energies and new materials (such as nano-composites) which will reduce its dependency on raw materials imported from, for example, North Africa.

ECONOMIC CHALLENGES:OPEN MARKET OR "FORTRESS"?

What happens in Europe will certainly affect North African and Middle Eastern countries. The question is what type of influence this will be. Dr. Rashiduzzaman lists the probable potentially negative factors, he *mentions:*

a) Anti-dumping actions;
b) Compulsory composition of products;
c) Quantitative restrictions of some imports;
d) Restricted access to public markets;
e) Temptation for the EEC to increase its purchases of agricultural and low-technology products from Eastern Europe;
f) Agricultural subsidies existing in some European countries.

* **City Bank, Rabat.**

As for the potentially positive factors, Dr. Rashiduzzaman mentions the quantitative enlargement of the European market and thus the increase in its capacity to absorb imports from Muslim countries. This will be especially true if the EEC eliminates a certain number of its trade quotas.

POLITICAL CHALLENGES: HEGEMONY OR ISOLATIONISM?

Dr. Rashiduzzaman underlines the risk of a hegemonic tendency in Europe, although this will be necessarily different from colonial or post-colonial hegemony. Indeed, history does not repeat itself. However, it is not certain that Europe can rapidly pursue a common and coherent foreign policy. In this regard, the EECs response to the Gulf crisis has not been very convincing or impressive. Inversely, there is also the risk of European isolationism. Xenophobic and tribal tendencies would be natural complements of protectionist tendencies at the economic level.

THE REAL QUESTIONS

If we cannot supply answers, we can at least ask good questions. The following three questions are also intended as a conceptual critique of Dr. Rashiduzzaman's speech.

1. Is the Islamic World as a unified and coherent whole a valid concept?

It is relevant to compare the concept of the "European Community" with that of the "Islamic World". On the one side, we find a unified and globally coherent entity, while on the other, we have the "Islamic World" which refers to a vague group of somewhat dissimilar countries.

The idea of economic regrouping is defensible, but only on the condition that it is conceptualized at a regional level, like that of the Maghreb, for example. However, even at this level, it is still necessary to demonstrate, supported by proof, the added value of such a regrouping, and not just to automatically assume it.

2. Is there an Islamic specificity of underdevelopment?

Will the relations between a unified Europe and the underdeveloped Islamic World be any different from the relations between Europe and all underdeveloped countries? Such a thesis should be demonstrated and not just simply accepted as something that goes without saying.

3. Will **the advent of a unified Europe have only negative consequences on the underdeveloped (Islamic) World?**

We should avoid focusing on only the possible negative consequences of the reunification of Europe.

A unified Europe will inevitably put into question a number of foreign economic structures, archaic industrial practices and rent situations which still prevail in underdeveloped countries. On the other hand, it will necessarily result in commercial, industrial and macroeconomic discipline which will be beneficial in the long run. European reunification is a moment of truth for us. It will oblige us, willingly or unwillingly, to confront one another. That is why we must avoid paranoiac reactions and engage instead in a positive and active approach.

Crisis is always an opportunity.

Part Two

THE SINGLE EUROPEAN MARKET AND ARAB COUNTRIES

ARAB-EUROPEAN FINANCIAL RELATIONS AND THE ESTABLISHMENT OF THE SINGLE EUROPEAN MARKET

Osama Jaafar Faquih*

I. INTRODUCTION

There has been a lot of talk recently about the mutual ties between countries, especially in economic fields, and how those ties have become stronger and their effects greater because of the development the world has witnessed in all fields during the last two decades. This applies more particularly to financial relations between Arab countries and Europe, relations which are presently given more importance and generate greater interest from both parties.

Throughout history geographical proximity has made ties between Arab countries and Europe inevitable, and today Europe represents the edge of the industrial world on the "Southern" side, geographically and economically. It also embodies the way in which economic cooperation can grow most uniquely between countries and peoples who fought one another for many years, and who have been reunited by common interest, more than it is the case for other countries which are closer at least in civilization and culture.

However, the mutual economic influence between Europe and Arab countries does not stem from geographical and historical factors only, but is also a result of the evolution which took place in the last decade in the economic field, an evolution which has not yet stopped and whose effect on the world economy is still being felt.

Concerning financial relations between European and Arab countries, which is the topic of this paper, such relations are affected by what happens in the international financial markets, especially the changes which occur in the

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structure and trends of international financial flows. It is also affected by trade relations which in turn affect the current balance of payments between the two parties, and by banking relations between the European and the Arab World, and how financial resources circulate between them as a result of those relations. It is also inevitable for European financial relations to be influenced by the state of Arab financial markets in comparison to the present or expected state of European markets. For this purpose, this paper will deal with these aspects before it discusses the future of financial relations between Arab and European countries in the light of the creation of the European unified market.

This paper will conclude by presenting a number of recommendations, that we hope will help orient those relations to the benefit of Arab and European countries. We also hope that this paper will help to shed some light on the nature of the relations between the countries of the Organization of the Islamic Conference as a whole and the European Community.

May Allah grant us success.

II. INTERNATIONAL FINANCIAL FLOWS DURING THE 1980s

The 1980s witnessed an instability in balances of payments at a scale not seen since the first World War. Whereas the total deficit and surplus of large industrialized nations did not exceed 100 billion dollars before 1982' (1980s most of the time averaging around 50 billion dollars), it went over 300 billion dollars (Table 1), representing more than 2% of the GDP of those countries during the second half of the decade. This was accompanied by a continuous increase in capital flows, which reached 600 billion dollars at the end of the decade (Table 2). In addition, there was an increase in foreign currency transactions which doubled between 1986 and 1989 and last year reached 650 billion dollars daily, which is the equivalent of forty times the average daily value of international trade.'

While these figures indicate an increase in capital flows, the movement of private capital led to a greater deterioration of balances of payments as a

1. Without taking into account the decimal point.

2. Philip Turner, Capital Flows in the 1980s, BIS, Basle, April, 1991.

result of its transfer from countries with a deficit to countries with a surplus, instead of in the opposite direction, and this factor has increased the external pressure on economic policies. Another contributing factor was the fact that the progressive liberation of the circulation of capital which occurred between industrial economies in the 1970s became totally free in the 1980s except for restrictions which are still imposed in some industrial countries on the foreign investments of financial institutions.

Due to the importance of this development in the movement of capital during the last decade and its long-term effects on the world economy, we shall at present sum up the main aspects so that we can see the way they will affect Arab interests.

A. The Main Financial Developments

Capital flows during the 1980s were concentrated increasingly on transactions between industrialized countries, leaving developing countries in the position of observers. Instead of using those funds to increase investments, the role of developing countries was limited to the gap in the reserves of industrialized countries these importers of capital. The main characteristics of these flows are as follows:

1. Stagnation of capital flows to developing countries[3]

Private capital flows to developing countries diminished during the 1980s; official flows coming mostly from public development aid increased slightly and banking flows decreased substantially. The result of all this was that the total of capital flows to developing countries was characterized by stagnation during the decade (Table 4).

The deposits of developing countries in banks increased due partly to the increase in public reserves placed in European financial markets and partly the flight of capital resulting from improper economic policies which hindered the investment environment in those countries. The average estimation of the flight of capital from non-OPEC members developing countries is between 100 and 184 billion dollars.

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3. Philip Turner, Capital Flows in the 1980s, BIS, Basle, April, 1991.

2. Decrease in the rate of savings in industrialized countries''

The average national savings (the part of savings in the GNP) diminished in all industrialized countries from 23.1 % during the second half of the 1970s to 20.6% during the 1980s. This decrease affected all the large industrial powers except Western Germany whose average savings saw a slight increase. These countries, and particularly the USA, imported capital to fill the gap in their savings.

3. Evolution of international financial markets

Global capital flows increased substantially in the 1980s: international transactions in bank notes in the markets of the USA rose from 251 billion dollars in 1981 to over 5,473 billion dollars in 1989, while transactions in equities doubled seven times and securities increased thirty times[5] during the same period. A great part of these transactions were short-term with a relatively quick return.

International financial markets endeavored to offer a greater choice of financial instruments to meet the increasing demands of transactors, as a result of the changes which affected the international monetary system. One of the most important of these changes was the floatation of exchange rates and the increase in the disparity of the interest rates of different currencies and the need of transactors to take precautionary measures against inflation with the increase of the movement of capital. So, we can say that the two functions of financial variety and jobbing in the financial markets have overwhelmed the function of allocating financial resources in those markets.

Finally, capital flows were characterized in the mid-1980s by securitization, which is the exchange of securities for financial flows through banks as a result of the limitation of bank loans, which represented 80% of global international funds in 1981 as compared to 50% in 1984.[6] However,

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4. The International Monetary Fund, The Perspective of the World Economy, Washington, D.C., May, 1991.

5. US Treasury Bulletin, US Securities and Exchange Commission Annual Report, BIS, International Banking and Financial Statistics.

6. The international financing is banking loans and exported securities.

securitization began to decrease in 1985 because of the boost in bank lending which at the end of the decade represented approximately three-fourths of international financing.

4. Increase in direct foreign investments

International flows from direct foreign investments rose from 48 billion dollars in 1985 to 185 billion dollars in 1989 (Table 5). The distribution of flows between countries changed dramatically from the mid-1970s until 1984, between one-third and one-fourth of the flows went to developing countries. The share of these countries then decreased to about 11% , which means that the greater part of the tremendous increase in flows went to industrialized countries.'

The decrease of direct investment flows to developing countries is closely linked to their economic performance. We find, for example, that flows increased for successful economies in Southeast Asia and decreased for heavily indebted countries. This is also explained by the nonexistence of sophisticated stock markets enabling the purchase of existing companies, which is the most frequent mode of direct foreign investment.'

Among industrialized nations, the flow of foreign capital increased in the United States and the European Community. The share of the United States from the total flows to industrialized countries went from one-third in the 1970s to about one-half in the 1980s. The share of the EC rose until it slightly exceeded that of the United States in 1989. Most of the increase in flows to the EC came from inside Europe, and one of its sources was Europeanization, or the increasing integration between European firms. The flows also increased from outside Europe, particularly from Japan in particular.

The big increase in the flow of direct foreign investments can be explained by greater integration and the purchase of multinationals as well as by industrialized delocalization so as to benefit from the low cost of labor or differences in exchange rates or the fear of trade protectionism.

7. IMF, Balance of Payments Statistics.

S. Philip Turner, Capital Flows in the 1980s , BIS, Basle, April, 1991.

5. Increase in securities investments

Portfolio investments (equities and securities) increased substantially during the 1980s. These investments rose from 7,600 billion dollars in 1983 to over 21,500 billion dollars in 1989.[9] This increase was concentrated almost exclusively in transactions inside industrialized nations. Securities investments remained limited in developing countries, the issuing of securities by those countries and by international institutions on their behalf remained at almost at the same level. Half of the total issuing came from newly industrialized countries (Table 6).

One of the main factors behind the increase of portfolio investment flows was the great expansion in securities investments by large financial institutions in industrialized countries, including retirement banks, insurance companies and investment trusts. It can be said without exaggeration that banks financed the imbalance of international unfavorable payments, whereas financial institutions other than banks financed greater imbalances during the 1980s. The total value of all equities in developing countries is less than 60% of the value of equities in the markets of industrialized nations, as a result of the nonexistence of markets or their inability to make payments.

At the end of the decade, the total value of international equities transactions approximated 1,500 billion dollars, as opposed to only US$ 73 billion at the end of the 1970s. The volume of international transactions diminished slightly as a result of the crash of October, 1987, to get back to its growth in 1989 (Table 7). Up to 1987, the United States accounted for a large part of equities transactions, followed by the United Kingdom but transactions in European and Japanese stock markets have gained more importance since 1988 and now account for half of the international market. This underlines the fact that equities transactions occur where there is an increase in economic growth.

The volume of international securities transactions exceeded 10,000 billion dollars at the end of the decade, in comparison to one-third of that volume at its beginning (Table 6). This increase reflects the deterioration of the deficits in governmental budgets in the first half of the 1980s. International stock markets are characterized by the fact that half of the transactions concern

9. J.P. Morgan, World Financial Markets, 1989, several issues.

equities that are valued in dollars, and by the big demand for shares by the Japanese, with four-fifths of the equities they hold valued in dollars. The capital flows of the private sector are more and more being issued by local firms of international holdings instead of by nonresidents who buy local securities (Table 8).

6. Increase in short-term bank flows

Short-term bank flows were estimated at about 650 billion dollars in 1989. The annual average of those flows rose from 28 billion dollars in the first half of the decade to 80 billion in the second half and its percentage of the GDP rose in the large industrialized nations (Table 9). The reason for the short-terms of the flows is because banks are quickly responsive to the least change in the rates of interest and exchange.

The United Kingdom's dependency on short-term bank flows to finance its payments deficit increased through the medium of increasing the short-term interest rates of its currency in order to attract those flows.

Germany recycled some of the surplus of its payments outside of the country through bank flows which reached 84 billion dollars in the last five years. As for Japan, in spite of the existence of a big surplus in its payments, it enjoyed the arrival of bank flows which reached almost 200 billion dollars during the same period. The reason for this is that the restrictions imposed on German banks concerning the risks of dealing with foreign currencies and the depth of the European market for the mark made it easy for German banks to loan the mark abroad. Since Japanese banks were allowed to provide long-term loans and short-term credit in foreign currencies, making them more active in international banking operations, and with the rise in the value of Japanese equities, Japanese banks felt encouraged to borrow from abroad.

With regard to Europe, bank loans in foreign currency increased during the second half of the decade, especially in Britain and Italy. In Britain, most of the transactions were made by London banks giving loans to Japanese banks, and the high interest rate on the lira diverted some of the demand for loans to the ECU.

B. Trends of Financial Flows to and from Arab Countries during the 1980s

Arab countries continued to export capital to foreign countries during the 1970s. This tendency was encouraged by the increase in petroleum surpluses after the correction of petroleum prices, the limited capacity of absorption of the main petroleum exporting countries, and the lack of development of the investing environment in other Arab countries.

1. Net of financial flows

The annual average of net exported Arab capital was nearly 45 billion dollars between 1975 and 1980,[10] although it increased more substantially in 1979 and 1980 as a consequence of the rise in petroleum prices. In 1980, it reached approximately 95 billion dollars (Table 3). The decrease in petroleum prices in the early 1980s and the stagnation in the world economy which accompanied it led to a reduction of the annual net financial flows from Arab countries during the first half of the 1980s to about one-fifth of its level in 1980. Arab countries as a whole then became net importers of capital during the second half of the decade, importing on average around 10 billion dollars a year. However, the stability of petroleum in 1990 helped them to resume their export of capital, with the net flow from Arab countries reaching 6 billion dollars in that year.

The figures from Arab countries put together hide the substantial disparity in the payments between Arab petroleum countries, (i.e., the countries of the Gulf Cooperation Council, Algeria, Iraq and Libya) and other Arab countries. The average capital exported by the Arab petroleum exporting countries between 1975 and 1980 reached around 55 billion dollars a year, whereas other Arab countries imported 10 billion dollars a year during the same period.

While the petroleum countries exported over 100 billion dollars in 1980, the capital flows to the outside decreased to less than one-third of that volume in the first half of the 1980s. These countries then became net importers of capital (less than two billion dollars annually on average) during the second

10. The Arab Monetary Fund, "The Unified Economic Report", various issues.

half of the decade. Thanks to the improvement of petroleum markets in 1990, these countries exported around 15 billion dollars in 1990.

Other Arab countries remained importers of capital, their import of capital in the first half of the 1980s at the same level as in the second half of the 1970s (10 billion dollars on average annually). It then decreased to around 8.5 billion dollars a year.

2. Components of financial flows

If we look at one of the components of these flows, which is direct investment, we find that Arab countries as a whole, and the petroleum countries in particular, almost stopped direct investment in foreign countries during the 1980s, and became net importers of investment in modest quantities, smaller in the second half of the decade than in the first half. However,they resumed direct investment in small amounts in 1990.

The component of private capital flows includes export loans. Most probably these loans are still running in restricted quantities, so the major part of this item is actually from and to the private sector in Arab countries. While this exceeded two-thirds of net exports of those funds in 1990, it was over its average level during the first half of the 1980s by 50%, and it continued, even if modestly, during the second half of the decade notwithstanding the fact that most Arab countries changed in that period into importers of capital.

The private sector in those Arab countries which are by nature importers of capital continued to export private capital during the 1980s, especially in the second half of the decade. The same situation applied to the private sector of petroleum countries, with the average of private funds which left those countries exceeding one and a half billion dollars a year. This shows the extent to which it is necessary to improve the investment environment in Arab countries in order to benefit from the capital of the private sector.

Arab countries remained net borrowers from outside until the end of the 1970s, even if the net average of borrowing of Arab petroleum countries was less than that of other Arab countries. The estimates for 1990 indicate that Arab petroleum countries became net borrowers in 1990, while the level of borrowing of other Arab countries decreased during the same year, as a result of the intense competition for world savings. In the field of borrowing from public sources, which are represented mainly by multilateral institutions, we find that Arab countries continued during the 1980s to transfer net funds to those sources, whether in the form of participations and net loans on the part of Arab petroleum countries, or payments of dues on the part of other Arab countries. The same goes for net bank loans, since the Arab countries continued to transfer net funds to international banks during the 1980s. However, the situation changed in 1990, when all Arab countries became net borrowers from those banks.

Private transfers reflect an important side of Arab economic cooperation, as it is assumed that a part of the private transfers which left the Arab petroleum countries during the period of analysis went to the other Arab countries which got slightly less than 7 billion dollars per year on average."

In addition, a part of the public transfers which leave Arab petroleum countries goes to other Arab countries in the form of development assistance. The details of this are dealt with in the following chapter.

C. Flows of Development Aid 1.

International development aid

The aid supplied by members of the Development Aid Commission (DAC) during the 1980s exceeded 3.9% on average annually with fixed prices. The rate of increase was lower in the second half than in the first half of the decade. The rate of development aid in comparison to the GDP of all the countries of the Commission remained about 0.34%. Japan and the United States are the countries with the lowest rates, since, if we exclude the United States, the percentage of aid of the Commission rises to 0.45% and if we exclude both the USA and Japan, the rate rises to 0.51 %[12] (Table 10).

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11. These transfers undoubtedly include the transfers of Arab markets in Europe, which go primarily to Tunisia, Algeria and Morocco, and which are estimated at 2 billion dollars. It is also feared that the transfers coming from the Arab petroleum countries may have decreased because of the Gulf crisis.

12. OECD, "Development Cooperation", Paris, 1990.

If we consider international development aid in the framework of financial flows to developing countries, we find that these flows decreased between 1980 and 1986, but have remained stable in the last few years. However, the level in fixed prices in 1989 did not exceed much more than half of the level in 1981. Public development aid and direct foreign investment represent at present more than 80% of net flows compared to about 45% in 1981 (Table 4).

Geographically, flows to the same areas have shrunk due to the economic development they have achieved, as is the case for the countries of Southeast Asia, and decreased in other areas awaiting solutions to debt problems,as in Latin America. On the other hand, public aid to African countries has increased to cover the decrease in private flows. The global flow, however, did not increase.

2. **Arab development aid**

Arab countries have given around 87 billion dollars in development aid since 1970, among which 48 billion dollars were given during the 1980s. The rate of aid in comparison to the GDP of these countries varied between 3.3 to 1.7%. Saudi Arabia supplied about one-third of that aid, followed by Kuwait (about 16% and the United Arab Emirates (about 10%). The global volume supplied by the Arab Gulf countries reached 92.3%. Arab countries supply most of the development aid of OPEC countries, and this aid has in recent years become solely dependent on Arab countries which are members of OPEC (Table 10 and 11).

It is praiseworthy that in 1970, the percentage of the aid supplied by Arab countries to their GDP was ten times the respective percentage supplied by DAC countries, and the percentage of Arab aid supplied between 1973 and 1988 was nine times the respective percentage of all the countries of the commission, and has never been less than two and half times that percentage.

Arab aid is generally characterized by favorable terms, because a large part of it is in the form of donations. This is especially true in the case of bilateral assistance. When we consider that Arab donor countries are developing countries which lack variety in the structure of their economies and are in need of supplementary efforts to reinforce their agricultural and industrial sectors and to maintain their infrastructure, we realize that the development aid granted by(these countries, with easy terms and without political pressure, in unique in itself, and is a good example of the type of cooperation on the aid they grant that recipient countries must import from them. This means that industrialized countries benefit to a great extent from Arab development aid through business contacts with developing countries.

The European Community also grants development aid to a number of Arab countries through the Convention of Lome (Djibouti, Sudan, Somalia and Mauritania), and the Convention of the Mediterranean Sea (Jordan, Tunisia, Algeria, Syria, Lebanon, Morocco and Egypt).

The EC countries grant development aid to Arab countries through these conventions as well as on bilateral level. Between I981 and 1988, this aid amounted to 14.6 billion dollars representing 26.6% of the global development aid which flowed into Arab countries during that period. In comparison, Arab donor countries supplied Arab countries with development aid of about 17 billion dollars or about one-third of the global aid they received in the same period. The Arab countries which are exporters of labor received about 2 billion dollars a year as transfers from their workers in Europe, the majority of whom are from the Maghreb countries. However, the volume of those transfers is on the decline because of the poor economic situation in Europe and the increase of restrictions against Arab labor. On the other hand, Arab countries receive 5 billion dollars a year as transfers from their nationals working in the countries of the Gulf Cooperation Council.

III. ARAB-EUROPEAN TRADE RELATIONS[13]

EC countries represent the first commercial partner for Arab countries; the annual average growth of trade between the Arab countries and the EC reached 8% during the second half of the 1970s. However, Arab-European trade decreased substantially in the 1980s, falling by a yearly average of 11% between 1980 and 1986 and then decreasing by an annual average of 11% between 1986 and 1989. Though Arab-European trade increased by about 30% in 1990, its present level is still well below that of 1980.

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13. This part is based on : The Arab Monetary Fund, The Impact of the Single European Market on Arab Trade, Abu Dhabi, August 1989, and also The Unified Arab Economic Report, various issues.

Similarly, the proportion of Arab trade with EC countries has receded as a percentage the global trade of Arab countries falling from 76% in 1976 to 43% in 1987, and then to 33% in 1989. At the same time, the rate of this trade as a percentage of the GNP of Arab countries decreased from 58% in 1976 to 32% in 1987, and then to 17% in 1989. The rate then reached 21% in 1990.

In 1982, Arab-European trade changed from a surplus in favor of Arab countries, reaching nearly 41 billion dollars in 1980, to a deficit which grew from 5 billion dollars in 1983 to about 12 billion dollars in 1988.

The majority of Arab countries are linked to the EC by economic and commercial cooperation agreements, most of which are based on the EC giving Arab countries trade preferences and allowing them a greater opportunity to enter the market. This is in addition to the customs and noncustoms preferential treatment for some goods and products listed in the structure of imported products by the EC.

Among these agreements, there is the trade agreement between the EC and Jordan, Tunisia, Algeria, Syria, Lebanon, Morocco and Egypt, which stipulates the free entry of all manufactured products of these countries into the EC and gives customs preferential duties to agricultural products without requiring the principle of similar treatment on the part of Arab countries.

However, the commercial interests of Arab countries were affected by Greece, Spain and Portugal joining the market. This reduced the trade preferences granted to Arab countries in the field of the manufacture of textile and leather articles which are also exported to Greece, Spain and Portugal. This is in addition to the competitiveness of many agricultural products of those countries, such as sunflower oil, tomatoes, citrus fruit and sardines, with Arab exports of the same products.

In 1987, an additional agreement was signed by which the EC allowed the above mentioned Arab countries to maintain their traditional level of exports and to free progressively a number of agricultural products from customs duties until, 1995 when they will become totally duty free. This action was aimed at reducing the difficulties facing the entry of Arab exports to the EC because of the competition of Spanish and Portuguese products. However, the balance of competition is still unfavorable to Arab countries.

The GCC countries signed an agreement for economic and commercial cooperation with the EC in 1988. The aim is to get assistance to diversify and develop the sectors of energy, industry and agriculture through the increase of joint ventures in the field of the transfer of technology and training. The agreement also stipulates that each party should grant the other the clause of the most favored nation in commercial activity.

The second part of the agreement, signed in 1989, set a general framework for trade cooperation, but neither lessened the restrictions imposed on commercial action activity nor offered guaranties to preserve the interests of GCC countries concerning petrochemicals. This occurs at a time when GCC countries are trying to sign an agreement for free trade between the two parties with petrochemical exports representing the main obstacle to such an agreement.

Petrochemical exports at present face some restrictions resulting from the application by the EC of the general system of preference, which imposes tariff duties automatically on exports as soon as their volume exceeds the fixed limit exempt from duties. This system is characterized by the spirit of protectionism in spite of the existence of the element of duty exemption which is rather low.

The petrochemical industry in GCC countries has succeeded in providing high employment competence in a very short time, especially in Saudi Arabia. It also enjoys a production capacity reserved for export to EC countries and Japan in particular. However, EC countries have imposed high customs duties on most Arab petrochemical products to restrict their entry into the Community through the general system of preference with which restrictions are put on the exports of GCC countries, in addition to Libya's exports of liquid ammonia, methane and urea.

It is certain that trade between Europe and Arab countries will be affected in two ways by the advent of the European Market in 1992. Firstly, the mere dismantling of internal trade barriers between the countries of the EC will be at the expense of nonmember countries, especially trade partners. It is expected that a number of external common barriers will replace the internal barriers including the mechanism of "reinforcement of the trade market and the protection of local prices from international markets". Secondly, the principle of reciprocity requires nonmember countries to offer trade preferences to all member countries of the Community in exchange for permission to enter any one member country. Many Arab countries will undoubtedly face difficulties in accepting this principle, especially countries which impose protectionist measures on their markets in order to reduce their balance of payment problems. As for GCC countries, they are endeavoring at present to open their local markets to EC countries in the framework of free trade, as a step to reinforce their petrochemical exports.

IV. ARAB-EUROPEAN FINANCIAL RELATIONS A.

Arab Banks Operating in Europe[14]

As a result of financial surplus, petroleum countries in the mid-I970s turned towards foreign investments especially in Europe. The establishment of Arab banks was one of the most successful aspect of Arab investment in Europe. Banking relations between Arab countries and Europe date from 1962 when the first Arab bank opened in Switzerland.

1. Achievements of Arab banks in Europe

The Arab presence in Europe witnessed some remarkable achievements during the second half of the 1970s, including the rapid expansion of Arab banking networks internationally and the reorganization and rearrangement of infrastructure and services. Joint Arab-European banks were created; new Arab international banks saw the light; branches of other banks were opened in international financial markets; capital in existing branches was increased and some Arab banks created companies for investment and financial services. This was also accompanied by a remarkable credit expansion in international banking operations.

14. This part is based on the following sources:

1. The Arab Monetary Fund, "The Impact of the Single European Market on the Financial Sector and Arab Banks", Abu Dhabi, April, 1989.
2. The Arab Monetary Fund, The Fund's Report to the Economic and Social Council, at the 48th Session on the Developments Particular to the Single European Market, February, 1990.

Thus, Arab banking activities experienced a remarkable international expansion, and Arab foreign banks played an important role in Arab economic development. This was done by investing part of their deposits inside the Arab nation and supplying the necessary financial resources to some countries from international financial markets.

These developments were compatible with the goals of Arab banks to expand internationally. Some of the most important aspects of this expansion were:

a) The development of Arab financial, commercial and economic relations;
b) The financing of foreign trade;
c) The financing of development projects;
d) The management of Arab deposits and the reinforcement of the Arab banking presence in international financial markets.

However, at the beginning of the last quarter of the 1980s, adverse economic conditions in the Arab World, as well as internationally, imposed numerous difficulties on local and foreign Arab banks, among which were:

a) The decrease in the growth of bank resources in some Arab countries;
b) The setback in the demand for credit;
c) The increase in the percentage of high risk and bad debts.

On the international level, Arab banks were affected by the slowness of international economic growth and the rapid accumulation of suspended external debt, which was accompanied by a noticeable decrease in financial flows from industrialized countries to developing countries, and also the setback in financing operations of foreign trade in the light of the decrease in the average growth of international trade.

On the Arab side, bank operations were affected by the setback in economic performance in most countries during the 1980s, which led to a decrease in the demand for credit. Loans which were granted by Arab banks and which became high risk or irrecoverable have contributed to reducing the demand for credit and to limiting the growth of the resources of Arab banks.

Obviously, the overall result of these developments had **a** negative effect on the activity of Arab banks. Moreover, in spite of the quantitative development which has occurred in Arab banks, the type of banking activities is still based on traditional methods which have been for many years, along with some limited investment services. This has not made it possible-for Arab banks to compete international banks in achieving the qualitative development characteristic of the modern techniques of banking services and investments.

Arab banks have also participated in investing a large part of Arab capital abroad (about 670 billion dollars at the end of 1990). They have contributed to orienting 75% of Arab deposits towards long-term investment channels and the rest towards short-term liquid investments.

Yet, in spite of the existence of suspended external debt, and the accompanying setback in Arab surplus financial flows, Arab banks operating abroad expanded during the first half of the 1980s, granting international bank credits inside the European Community worth 48 billion dollars in the period extending from the mid-1970s to the mid-1980s, of which 21 billion dollars were in favor of Arab parties representing 44% of the total.

Other developments occurred in international financial markets during the second half of the 1980s, which affected the activities of Arab banks operating abroad. These developments included the dismantling of restrictions imposed on the flow of capital and on the financial instruments which can be employed for its placement, and the extension of international securities at the expense of bank loans, or what is known as securitization. The international credit activity of these banks retracted continuously until it reached 4 billion dollars in 1990, i.e., about 3.6% of the annual global volume of international credit markets which reached 95.2 billion dollars in the same year. The share of Arab banks was about 10% of that volume during the first half of the 1980s.

A factor which has contributed to that setback is the reduced size of Arab banks operating abroad and the scarcity of the capital of many of them which has diminished their ability to compete with their European, American and Japanese counterparts. This is in addition to European laws and restrictions imposed on them regarding financing regulations and guarantees because of their presence abroad.

What is certainly noticeable in the field of Arab foreign investment is the action undertaken by GCC countries in investing a great part of their capital in international markets. These investments account for more than 50% of global Arab investments abroad with a volume of 342 billion dollars in 1990, of which I80 billion dollars represented the net foreign reserves of monetary authorities, including the official reserves and funds which they keep at the International Money Fund and the World Bank, government commercial paper, short-term investments and the long-term investments, which include the loans given to developing countries and other investments. The private sector's foreign investments reached 162 billion dollars in the form of bank deposits and short-term investments along with other investments in the fields of shares and real estate.

The geographical distribution of the Gulf countries investment abroad indicates that more than one-third of that investment went to the EC, with Britain receiving about 14% and with 20% going to other European countries. The share of the American market, however, dwindled from around 20% of global Gulf investment to I3% between 1982 and 1988, as a result of the Saudi Arabian private sector which withdrew a substantial portion (16.7 billion dollars) of its net foreign deposits in America (estimated at 80 billion dollars) in order to invest inside the Kingdom.

Developing countries, foreign banking centers and the International Fund and the World Bank received respectively about 13%, 11% and 7.6% of those funds. Japan and Southeast Asian markets, as well as numerous OECD countries, received the remainder estimated at 18%.

There are about 190 Arab banks operating in EC countries. Their activity evolves around the financing of commercial activities and regularizing payments. Arab countries have invested nearly 4 billion dollars in setting up and enlarging these institutions. The majority of the banks are concentrated in London with 80 representing 42% of the total. Arab banks are also net creditors of world banks by around 320 billion dollars, while Arab assets abroad are estimated at 500 billion dollars, and the volume of Arab debt is around 180 billion dollars.

2. Challenges facing Arab banks in Europe

The following challenges face Arab banks in Europe:

1. The tendency of economic groups to reduce restrictions on banking operations inside their frontiers. An example is the endeavor of European countries to create a single monetary market by 1992, and the free-trade agreement between Canada and the United States in 1989 which created a unified market for banking services.

2. The intense competition in international financial markets as a result of the total system for financial services (ALL FINANZ) which expands the base of banking operations to include insurance and investment. This system aims at dismantling restrictions on banking activity (deregulation) and doing away with the role of banking specialization. It is oriented towards the expansion of international banking activity, through the extension of branches and the consolidation of credit operations, which means that borrowing institutions issue paper money that is negotiable and banks open up subscriptions for it and then play the role of intermediary for its circulation.

3. The negative impact of the Basle Report concerning the norms of banking capital sufficiency and the conditions it may require, such as, the increase of bank capital and the application of the system of likely risks in classifying assets, classification which considers Arab countries (with the exception of Saudi Arabia) to be high risk developing countries.

B. Deposits and Liabilities of Arab Banks in Europe

Financial relations between Arab countries and their banks and European countries are characterized by the imbalance of their liabilities towards each other. This imbalance is clear when we look at the structure of Arab debts towards these banks.

What is important to note in this field is the great disparity in the type of liabilities between the two parties, in the sense that European liabilities towards the Arab World represent mainly the deposits of the countries of the area in European banks, while the European banks liabilities to Arab countries reflect mainly the current financial operations between the two parties. There is a disparity not only in the volume of the funds in transaction, but also in the instruments and the type of operations involved.

However, in spite of the negative effects resulting from the Gulf crisis which took the form of a major setback in world stock markets, the rise in long-term interest rates and sharp fluctuations in the rates of exchange in the world's currency markets, the international banking system is still highly dependent on Arab deposits, and, more particularly, those originating from petroleum. Although the Gulf crisis has made a few banks adopt a cautious attitude concerning the stability of countries in the area, the stability of the volume of Arab international deposits has lessened the intensity of apprehension of the international banking system of the threat of a sharp decrease in these vital deposits which are a principal source of international banking operations.

This reveals the importance of Arab deposits and the lack of balance in the relations between Arab countries and Western countries in favor of the latter.

1. Structure of Arab deposits in European banks

The deposits of Arab petroleum countries represent 80% of total Arab deposits. The statistics of the International Settlement Bank and the OECD indicate in this respect an increase in the volume of Arab deposits varying between 8.5% and 30% between 1986 and 1990. The increase in the volume of Arab liabilities towards European banks varied between -2% and 1I% in the same period (Table 13). There was also an increase in the volume of petroleum deposits during the same period despite a decrease in the price of crude oil. This increase in the volume of deposits is due to three reasons:

a) The increase in oil consumption because of reduced prices,the economic boost enjoyed by large industrialized nations and the decrease in petroleum production in countries outside OPEC, which reinforced OPEC production and the volume of its foreign exports.

b) The increase of demand for credit from European banks and the decision of petroleum countries to preserve monetary liquidities by resorting to loans.

c) The tendency of interest rates to rise constantly made these countries change their methods of borrowing and placement of funds, as they took a large part of their invested funds out of the securities market and oriented them towards short-term deposits, due to their relative high return, and the replacement of their interests.

2. Geographical distribution of the currencies making up Arab deposits15

Arab deposits are distributed over the main international currencies. Deposits in dollars represent the highest percentage, estimated at about 70% of all deposits because of the nature of revenues from petroleum and the practical link between Gulf currencies and the dollar. The rest of the deposits are divided between the sterling pound, the Japanese yen, the German mark, the French franc and the Swiss franc (Table 15).

Geographically, the London market holds the greater part of Arab deposits with about 35 %, followed by other European markets with about 18% , the majority of which is retained by the Swiss market. As for the American markets, their share is only about 6.5% of these deposits, as opposed to Arab long-term investments in the United States which are several times as much. These percentages reflect the contradiction between the geographical distribution and the currency composition of these deposits,and this indicates the importance of the European market in the transactions of the main currencies, be they European or otherwise (Table 15).

It should be noted that we must not look at the geographical distribution and the currency composition of these deposits without taking into account all aspects of Arab investment strategies because long-term investment is not included in the figures concerning the deposits which are the subject of this research.

15. This part is based on statistics gathered by the International Settlement Bank on the countries of the Middle East, OPEC members, which include Arab countries exporting petroleum whose deposits represent 80% of all Arab deposits in European countries, and also Iran whose share is less than 3.8% of all the deposits. The evaluation of these figures are very representative of the evolution in the figures of Arab countries.

3. Structure of Arab liabilities towards European banks

Most Arab liabilities towards European banks are represented by short-term operations of a commercial nature. The types of liabilities differ according to the nationality of the banks concerned. About 66% of Arab liabilities towards Japanese banks are operations between banks, while the percentage of operations other than between banks in the private sector amount to 70% of Arab liabilities towards French banks and about 53% of Arab liabilities towards German banks. This difference in the type of operations reflects the economic bilateral relations and financial ties which developed through the years between Arab and European countries. As for the terms of these liabilities, 75% of them do not exceed one year, which reveals the nature of these liabilities.

4. Geographical distribution and the currencies making up Arab liabilities

Arab liabilities are distributed over the main currencies in almost the same percentage as the distribution of deposits in currencies. The American dollar represents about 70%, and the rest is divided between the other principal currencies (Table 16). The origin of a large part of the liabilities of Arab countries is, apart from the large nations, the major international foreign banking centers (offshore), since the percentage of loans contracted by Arab countries from these banks represents around 40% of all liabilities. As for the large industrialized nations, their share is about 60%.

V. ARAB FINANCIAL MARKETS IN COMPARISON TO EUROPEAN MARKETS[16]

A. Structure of European Financial Markets -1.

Available financial instruments

Some countries put regulations and restrictions on the operations of their financial markets. As a result, a great number of negotiators in financial instruments valued in the currencies of those countries transfer their operations to the financial centers of Europe, where bank notes can be issued in different

16. The Arab Monetary Fund, "The Organization of International Financial Markets and its Repercussions on Arab Financial Markets", Abu Dhabi, October, 1989.

financial centers and negotiated at the international level. Eurobonds are among the most important financial instruments used in European markets, followed by Euroequity and financial instruments such as bills and commercial papers.

A) Eurobonds. Banks in many financial centers act as brokers for the issue of Eurobonds, since they set the terms of the loan, its guarantee **and** the currency on which it is based. They also make agreements which the borrowers, who are generally large American, European and Japanese firms, public institutions in industrialized countries, governments and international organizations. These banks also fully guarantee the subscriptions in the issued bonds, and give the borrower the proceeds, without the long procedures which characterize borrowing from local markets. Central banks then distribute the bonds to a large number of financial and banking institutions which distribute them in turn to their selected agents, without submitting them to public subscription. This procedure is known as private placement which does not require the preparation of an issue announcement or other measures taken local markets.

The Eurobonds market offers advantages to creditors, since it gives them a wider choice than what is found in national markets. It also enables borrowers to collect greater amounts than they would get from one national market, and because the procedure to issue Eurobonds is less complex, their cost is less than that of national bonds. Although most Eurobond transactions take place in the money markets of major financial centers such as New York, London and Luxembourg, they are not necessarily limited to those markets and also take place directly between sellers and buyers through banks which buy and sell them for a profit. In order to fulfil the delivery of the bonds and pay the price due for transactions in second markets, a number of institutions take care of the necessary compensation operations.

B) Euroequity**.** A Euroequity international market was created and went beyond the frontiers of national market. The issuing takes the form of offering the bonds for general subscription in different markets at the same time, with the necessity of complying with the requirements of the issue announcement particular to each market, or taking the form of private placements through bank, which raises a number of questions concerning the necessary conditions for the underwriters of the subscription to act as brokers in the issuing of such bonds. Generally speaking, this market is expected to grow rapidly, in accordance with the general lines which regulate the market of Eurobonds.

C) Other financial instruments. Eurobills and Euro Commercial Papers are among the most important other financial instruments. European markets give incentives for the issue of these instruments and for their trade in second markets. This is because the way that are issued, especially in London, has become a tradition with which many investors feel at ease, and the enlarged second markets make these papers fluid to a great extent.

2. Organization of financial markets and their components

The organization of the European financial market is characterized by the following:

A) A system exists for the simultaneous publication of market indicators, especially the price and the volume of transactions involving commercial papers which are negotiated at the international level, since the data reach different markets at the same time, and transactions are assured on a 24-hour basis. In addition, the European market possesses an electronic system to broadcast market data at the international level.

B) An electronic system to transmit data enables transactors to place orders to buy or sell and to carry them out through this system.

C) The European market has an efficient system for the settlement of operations and compensation which enables the delivery of financial papers and payment in a very short time and at minimal cost.

D) Many broker companies and large financial institutions operate in the European market and have branches in more than one market, and European countries always strive to exchange data concerning the activity of these companies and their branches. European regulations also set a minimum for the capital of these companies and institutions, a minimum which is compatible with the volume and nature of their operations and the degree of risk they face. This is done as a protection for investors at the international level.

E) European laws regulate the divulging of data concerning the transaction of financial papers and the issuing companies. This system is based on accounting and audit principles agreed upon by European countries so that the finances of the companies truly reflect their financial situation in the same way as it is done in all markets.

F) European laws offer financial markets protection against operations based on fraud or tricks to increase or decrease prices artificially.

B. European Financial Markets after 1992

1. Banking activity

It is expected that the activity of European banks will extend to cover insurance and investment, which will increase their capacity in the management of capital as part of the comprehensive system for financial services known as (ALL FINANZ). European banks will also enjoy the freedom to operate in all countries of the Community once they get the "unified banking licence", which gives the right to any bank in a European country to open branches and sell services in other countries of the European Community. The condition for banks to obtain the unified banking licence is to possess a certain of minimum capital, and to comply with the limit of capital set by the Basle Commission.

As for banks from outside the EC which wish to operate inside the Community, they must first obtain a license from the European Commission, which grants licenses on the principle of reciprocal treatment from other countries.

2. Conversion of national companies into European companies

Banks, financial and nonfinancial institutions and companies have acquired the right to buy other institutions and merge with them, although this operation falls under the scrutiny of the European Commission when it concerns the merger of companies whose global transactions exceed 5 million special drawing rights (SDR) - (about 6 million dollars).

Any observer of the evolution of the European market will notice that many mergers have actually taken place, and that companies with European status have imposed themselves on the reality of the market since 1989.

3. Free circulation of capital

By 1992, the EC countries will have issued all the legislation and taken all the measures to ensure the free circulation of capital between them. This includes the dismantling of all forms of control on foreign exchange.

4. Setting up a unified stock market system

It is expected that by 1992 a unified system for a European stock market will be created, which will include the linking and coordination of settlement and compensation systems between transaction centers in European capitals, in such a way as to supply data of the transactions in those centers simultaneously and continuously to European transactors.

This will be based on the creation of a European common data center which will gather and distribute data to all European companies whose shares and bonds are negotiated. It will also link all European money markets with a computer system which will allow transactors to follow operations in all markets, and to place and carry out orders for buying and selling.

C. Arab Financial Markets Today

1. Existence of the market or the possibility of its creation

If we consider Arab countries from point of view of their financial markets, we can distinguish three distinct categories.

The first category includes countries which possess relatively developed financial markets operating in the light of a comprehensive law which determines the institutions operating in the market, the government bodies which supervise the transactions, the norms of this supervision and all situations relating to the organization of transactions in the market.

The second category of Arab countries is characterized by an economic situation which is varied and dynamic enough to allow the creation of a stock market. Some of them possess money markets, but they are not organized and they lack the juridical and complementary organizational framework which offers adequate protection for the investor. These countries have the ability to develop a unified official market.

The third category included countries whose present state of economic activity or the structure of the enterprises operating in the economic field do not allow the creation of local financial markets. These countries need to develop investment awareness and investment opportunities and facilitate the circulation of Arab and foreign capital to contribute to; their economic development.

It is necessary to concentrate on the development of local markets in the countries in the first and second categories. These countries should begin establishing ties and connections between their markets, once they have made sure of the existence of a minimum of coordination between their systems and after reviewing control regulations on currency so as to facilitate the circulation of capital between them.

2. Degree of organization of the market

The organization of the primary market or the issue market is regulated by the law of commercial firms, which fixes the conditions for the creation of firms, the increase in their capital and the issuing of bonds, and sets the conditions to allow recourse to general subscription. The law also requires special procedures such as the issue of an announcement containing a minimum amount of the necessary information to enable the public to subscribe with full knowledge of the facts. The law gives in detail the subscription procedure as a protection for the rights of investors. The organization of the second market or transaction market allows these markets to be concentrated in one area, organizes transaction operations in such a way as to ensure maximum publicity and fair price for both the buyer and the seller and prohibits maneuvers and speculation which are likely to harm the safety of the market.

Those countries which possess money markets or the capacity to create them, due to the level and type of their economic activity, include the six GCC countries, Egypt, Jordan, Morocco and Tunisia. All of these countries have primary markets regulated by the law of commercial firms."

As for the second market or transaction market, apart from the United Arab Emirates and Qatar which are on the point of issuing laws for the creation of markets for the transaction of securities, the other above mentioned countries possess a complete or partial organization for a transaction market, either in the form of a transaction room in which buying and selling operations take place,

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17. We notice that the United Arab Emirates is getting ready to carry out Union Law No. 8 for the year 1984 concerning commercial companies after its amendment by Union Law No. 13 for the year 1988.

as it is the case for Jordan, Bahrain, Tunisia, Oman, Egypt and Morocco, or in the form of an arrangement to concentrate transactions in the hands of banking centers or their main branches, while assuring the fluidity of data between them through a central system, as is the case in Saudi Arabia.

A global survey of Arabic countries shows the existence of an active move towards the organization of financial markets and a reconsideration of the regulations governing them. With regard to the primary market, Egypt passed a law for joint stock companies in 1981; Jordan issued a new law for corporations at the beginning of 1989 and in the Sultanate of Oman, a decree was issued at the beginning of 1989 to recognize the operation of issuing the shares of companies. There is also, at present, a revision of company laws being undertaken by the proper authorities in Tunisia, Kuwait and Morocco.

As for second markets, during the last ten years, the laws concerning money markets have been reviewed in order to improve them. This was done in Egypt in 1981, Kuwait in 1983 and Tunisia in 1989. Laws to create money markets were issued in Bahrain (1987) and in Muscat (1988). Those markets were effectively open in 1989, and the laws regulating the stock exchange in Morocco are being revised at present.

3. 'Opening of Arab financial markets

Regarding the opening of Arab Stock exchanges, there are two categories of Arab countries. The first category consists of Arab countries which are exporters of capital, generally speaking, the GCC countries, and the second category comprises Arab countries which are importers of capital. The countries of each category differ in the degree to which they permit capital from inside the country to be invested outside and capital from outside to be invested inside the country.

A) ARAB COUNTRIES WHICH ARE EXPORTERS OF CAPITAL

The markets of these countries are characterized by being open from the inside to the outside. There are no restrictions or prohibitions to prevent the residents of these countries, nationals or others, from transferring their funds outside the country and investing them in different fields including securities issued or negotiated outside the country. There is no system of control on currency which prohibits or regulates such money flows.

As for opening from the outside to the inside, that is to say, the possibility of nonnationals participating in the national market, either by placing foreign shares or securities 'on subscription or incorporating them in the transaction market or by allowing nonnationals to own shares or bonds of national companies, the markets of Arab countries which are exporters of capital area, as a rule, not completely open in this way. The regulations of these countries specify the cases in which their markets may receive foreign investments in volumes whose importance differs from one country to the other.

These countries have as a prerequisite the agreement of the party concerned before placing a foreign subscription in the market, and the policy concerning the granting or the refusing of this agreement varies from one country to another. As an example, in 1988 the shares of two Arab companies operating in Saudi Arabia were offered for subscription reserved for Arab residents in the Kingdom who are nationals of the country of each of these two companies, after the agreement of the Ministry of Trade, the Ministry of Economy and the Saudi Arab Monetary Fund. In another example, the Stock Exchange of Kuwait, which is one of the oldest in the area especially in its foreign department, began its activity in 1968 by issuing securities in favor of an international bank, and followed this with other issues in favor of Arab and foreign parties concerning securities valued in the Kuwaiti Dinar. The second market for these issues also exists in Kuwait, in addition to the transaction in it which takes place in foreign markets like Luxembourg and London.

Some markets in these countries permit the registration of foreign shares and securities and allow them to be negotiated in the second market. The best example of this is the Kuwaiti market which allows the registration of foreign companies' shares on condition that these companies guarantee the flow of honest information to the national investor, and allow the operation of the transfer of ownership to be settled and paid for inside the country.

As for the possibility of nonnationals owning shares of companies in these countries, the general rule is that it is not permitted, with the exception of arrangements which stem from the decisions of the GCC which we shall talk about later. Nevertheless, some of these countries allow nonnationals to participate in the creation of join-stock companies in cases which require the need for foreign capital or foreign expertise. This is done generally by getting authorization from the concerned parties, and ensuring a minimum ownership of the capital by nationals. Whatever the case in which foreign capital is allowed to operate in the framework of the local market of these countries, it is always done in accordance with the conditions and situations prevailing in the market, and through accredited national brokers.

B) ARAB COUNTRIES WHICH ARE IMPORTERS OF CAPITAL

The markets of these countries are open from the outside to the inside because these countries endeavor to encourage and attract foreign investment and grant a special status to Arab investments, allowing them to operate in fields larger than those allowed to foreign investment in general. Nevertheless, some economic fields are reserved for national investment, and others require that a percentage of the capital of the companies operating in them should be owned by nationals. These countries also make provisions to enable the nonnational investor to transfer abroad the dividends of his investment or the proceeds from its liquidation.

On the other hand, the markets of these countries are not open from the inside to the outside, since it is not permissible to transfer funds outside except in the specified in the laws and regulations on foreign currency, and they do not usually include foreign investment. Moreover, these countries do not allow, in general, the placement of foreign issues of shares or securities in their national markets, nor do they incorporate shares or securities of foreign parties in their markets.

4. Relations between financial markets in GCC countries

In accordance with paragraph (3) in the eight chapter of the Unified Economic Agreement, which gives Gulf nationals the freedom to practice economic activities, the countries of the Council, in 1986, allowed their nationals to own no more, and sometimes no less than 75 % of the shares of joint-stock companies operating in Gulf countries in the domains of industry, agriculture, livestock, fishing and the building industry. Saudi Arabia allows Gulf nationals to create companies in the field of industrial activity without requiring a minimum ownership of capital by Saudis. Later regulations contain the following conditions:

A) Ownership is limited to the shares of companies operating in the fields of industry, agriculture, livestock, fishing and the building industry and does not include shares in banks and insurance companies.

B) There is a minimum ownership of the shares of new companies put forward for general subscription (51 % in Oman, Qatar and Bahrain). As for Kuwait, it only requires that the percentage owned by Gulf nationals should not exceed the maximum allocated to Kuwaitis and that this should be within the limit of what is allowed by the statutes of the company.

C) The number of Gulf nationals on the board of directors of a company cannot exceed the percentage of the shares they own in that company. Kuwait requires that the number of Kuwaiti directors on the board should not be less than two-thirds of the total number of directors in companies where Gulf nationals have the right to own shares. The president of the board should also be a Kuwaiti no matter what the percentage of ownership by Gulf nationals in the company may be.

D) The transaction and offer of shares are governed by the same regulations as those for the ownership and transfer of ownership inside the money markets to the country of origin of the company. This is a measure to unify the market where securities are negotiated' so as not to have more than one price because of the diversity of the markets.

In fact the opening of the Gulf Stock Market in this way is only a step towards establishing the full rights of economic citizenship at the level of the different countries of the Gulf Council. It is certain that these countries have a greater chance than any others to integrate their stock markets, especially as they have no control on the transfer of foreign currencies between them; they have similar and stable policies concerning the rate of exchange of their different currencies and they impose no tax on revenues generated by the purchase of stock.

D. The Arab Monetary Funds' Program to Develop Arab Financial Markets

It appears from the analysis presented on Arab stock markets that there is a possibility of creating strong ties between the markets of Arab countries which export capital and those which import it. Moreover, capital exporting countries can receive foreign investment in fields where they need foreign expertise, which can constitute a nucleus for strong relations between different Arab markets.

The Arab Monetary Fund has defined in detail a program to develop Arab stock markets, as a step towards connecting them. The following is a summary of the most important features of this program:

1. The Aim

A) To offer the technical expertise necessary to develop local stock markets in any Arab country having 'a stock market at present, and to create one in any country which has the capacity to set-up such a market. The development of the market includes legal and institutional aspects and all the professions linked to those aspects and operating in the scope of the market and the systems necessary for the safety of its operations. The Fund also expects to develop the systems and institutions in a similar way in all Arab countries which will call upon the Fund to offer consulting and technical expertise regarding their stock markets, so as to guarantee a minimum coordination between the systems and institutions of the markets in the Arab countries concerned. This development will also concern the aspect of the supply and demand for bank notes so as to achieve the required balance of the market. This includes the development of trade laws, company statutes, organizational legislation, principles of accounting and audit and fiscal laws.

B) To link Arab stock markets in two stages.

The first stage is to be able to issue stocks in one market to be subscribed in that market and other Arab stock markets; to be able to register and negotiate bonds and securities issued in an Arab market in other Arab stock markets and to give the priority to Arab nationals other than those of the issuing country to own and negotiate the securities of local companies.

The second stage is to create an Arab regional market for the transaction of Arab securities and bonds along with local markets.

To achieve this, coordination is necessary between the systems existing in different Arab markets and the liberation of the foreign exchange norms is required so as to allow the entry of capital and the transfer of dividends with their assets, if need be, without any obstacles. It is well understood that the coordination can only take place progressively and perhaps at the level of groups of Arab countries (e.g, GCC countries and the countries of the Union of the

Arab Magheb) in order to become the future nucleus for the Unified Arab market.

2. **Program components**

To achieve the above mentioned aims, the Fund has put forward a program for the development of Arab stock markets. This program is composed of the following components:

A) A complete list of juridical and organizational aspects concerning the stock markets , which countries possess or are likely to create; a listing of economic and. social information particular to those countries as well as any information pertaining to their stock markets; an assessment of the juridical and organizational situation of the stock markets of countries under study; a list of the aspects that need to be developed and the necessary forms of modification and development to be adopted by the countries concerned as part of their economic and social policies. Needless to say, the solutions and proposals which the Fund will recommend are expected to make the different systems prevailing in Arab countries more similar.

Up to now, the Fund has made ten field surveys of Arab monetary markets and prepared reports which contain its recommendations in the field of development. Six reports were sent to the countries concerned, and the remaining four are in the process of finalization.

B) The preparation of a model legal system for a stock market containing the organization of the market, the means of controlling it, the organization of different parties operating in it, such as, brokers, securities firms and subscription guaranty and the organization of transaction instruments such as shares, securities and others. Member countries can take the essence of the system and introduce the necessary modifications which are compatible with their legislative systems.

C) The creation of a two-part data base on Arab markets in the Fund: the first part containing data on the legislation and organizational situation of the market, and the second part containing data on the economic situation and the activity of the market. This data base will be continuously adjusted and updated through the continuous and organized flow of data from the markets concerned.

This will be done by permanent correspondents who have been selected by the Fund from the institutions operating in the market, and who have been trained to assemble the required data and organize it for entry into the data base. It will also provide them with the necessary tools to do their job in the way and in the time required. This system is expected to become operational at the beginning of the coming year.

VI. THE FUTURE OF ARAB-EUROPEAN FINANCIAL RELATIONS WITH THE CREATION OF THE SINGLE EUROPEAN MARKET

A. Impact of Contemporary Financial Development on the World's Economy

The international monetary system in the 1980s underwent three parallel revolutions: the liberation of financial and banking activities from restrictions (deregulation); the internationalization of financial activity (globalization) and financial and banking innovations. Some of the most important features of that period are the following:

1. The increase of financial flows to astronomical levels as a result of the increased competence in financial brokerage and the appearance of new financial instruments. This led to an increase in the diversity of financial investments and increased competition between financial institutions.

2. The increase in financial flows was not necessarily accompanied by an increase in stability. Prices in all financial markets (shares, securities and foreign currencies) were more unstable. The disorder in one market spread rapidly to others. This may have been due to the weakness of the world economy, in the form of acute recessions at the beginning of the 1980s, instability in the real price of goods and large and constant deficits in the American government's budget and payments. Although the improvement of financial brokerage has helped the world to overcome these disorders, it is more than probable that the increase in the circulation of capital has undermined economic stability.

3. There is no clear indication that the movement of direct foreign investment has encouraged the acceptance of deficits in current balances of

payments. The flows of direct investments from Japan have recycled the greater part of the surplus of Japanese payments, and the prospect of a unified European market has increased these flows in some European countries.

4. It is feared by some that the increase in the movement of capital has, to a great extent, weakened the mechanism of adaptation and correction and distorted the allocation of resources, since this movement has allowed deficits and surpluses in current balances of payments to continue for longer periods than before. The money markets have become more accepting of the industrialized nations' increase in their foreign debts.

5. The increase in the degree of financial complementarity at the international level during the 1980s was accompanied by an increase in the indications of the disruption in the trade of goods and services and the spreading of trade protectionist measures.

B. Perspectives of Financial Flows in the 1990s

It is expected that the development of international financial markets will continue, and their globalization will be reinforced with the development of the means of communication. However, it is not expected that the net of capital flows in the 1990s will play a role in dealing with the current payment imbalances similar to the important role they played in the last decade for the following reasons:

1. Operations to free money markets, and the diversity of the type of financial stock which followed, have neared completion, at least in the major financial centers. This has enabled a number of stock markets to reach a degree of fluidity, depth and expansion similar to those reached by American and British markets, which are progressively losing their supremacy to other markets. With this waning of importance, the funds that those markets orient towards the financing of imbalances of payments will progressively become foreign financial instruments.

2. The economic recession which began at the end of I990 has led to decrease in some financial flows, and has also slowed down the buying of companies and integration. The mobilization of funds through the issuing of shares in international markets and bank credits has also decreased.

3. It appears as though some financial institutions have faced more international risks than they could bear, which has focused their attention more and more on strengthening their position. It is certain that the advent of the recession, with the decrease in the price of assets, the difficulties facing banks in financial centers and the need to comply with more intense norms for capital sufficiency will reinforce the orientation of financial institutions towards strengthening their financial position.

4. Imported capital was used as an alternative and not as a complement to national savings in industrialized countries, since these countries did not increase their real investment, but instead used imported capital to preserve the level of consumption and maintain the deficit in the public sector. As evidence for this, the rate of investment (savings) to revenue in all the industrialized nations fell in the 1980s below its level in the 1970s. This indicates a shortage of financial resources.

These indicators show that capital markets will be less tolerant than before of imbalances of payments. The year 1990 has shown the first signs of this change: a clear decrease in the imbalances of payments of the main industrialized countries, and a decrease in some of the sources of finance of those imbalances, with a global decrease in financial flows from industrialized countries.

C. Impact of the Evolution of the International Market on Arab Interests

The interest of Arab countries, as developing countries, cannot but be affected by the evolutions that have occurred or are expected to occur in international financial flows. Some of the main factors involved here are the following :

1. What are known as the three parallel revolutions (deregulation, globalization and innovation) leave the financial and banking structures of Arab countries far behind and reduce the capacity of Arab institutions to deal on an equal basis with their counterparts in the international market.

2. The increase in the competence of financial brokerage at the world level and the innovation and diversity of the financial instruments which accompany it may affect the share of Arab countries in international financial

flows. It may also work as a factor to attract Arab financial resources away from the area, which may endanger future development.

3. If the increase in the movement of capital has shaken the stability of the world economy, and if we know that Arab countries are very sensitive to the international economic situation, then we can assume that Arab economies are likely to continue to face instability which originates outside of the area.

4. Even if the increase in the movement of capital has enabled industrialized countries to carry on the imbalance of their payments and increase their external debts, Arab countries, as developing countries, cannot continuously rely on international markets to finance the external imbalances which confront them, especially as the share of developing countries in international financial flows has become stagnant.

5. The increasing disruption of the world trade system and the spreading of protectionism, in spite of the increasing complementarity of world financial markets, may endanger the share of Arab countries in international foreign trade, especially in the nonpetroleum sectors which require export as one of their main factors for development.

D. Impact of the Single European Market on Arab Interests

It is clear from what was said above that the creation of the European market will result in a financial market which has many closely linked centers which will operate as if they were only one market. The authorities wil also provide this financial market with the juridical framework and the legislation which will ensure the protection of investors' interests, and with electronic systems which will facilitate quick negotiation and settlement simultaneusl and with precision. This assistance will also encompass a number of bi which operate in the European base and whose field of activity includes financial services.

It is certain that the creation of a financial market of such re and size is likely to attract a large part of Arab financial resources, lured a ay from the areas by the gains that can be derived from such a market, and b' ` use of the guaranties that Arab markets cannot offer. This, naturally, may be detrimental to the course of development of Arab countries, especially as the financial resources from petroleum are not as abundant as before, and the savings in Arab countries are scarce.

Additionally, the position of Arab banks operating in Europe will be affected in two ways. Firstly, the size and structure of these banks are the same as prevailing those found in national banks operating in Europe before the creation of the Single European Market. Secondly, the application of the rules of full capital which the Bank Commission issued and which were adopted by the European Community may render the Arab banks less capable of orienting their resources towards Arab countries since those countries, apart from Saudi Arabia, are listed among high risk countries with regard to loans.

However, the' Single European Market may also affect the present balance of the main currencies used in financial markets. If the present situation, which we discussed earlier, gives more weight in transactions to the American dollar, the creation of the Single Market may result after a few years in a greater use of the European Currency (ECU), which may be used to evaluate investment instruments on a larger scale than is now the case. It may in fact later evolve into a reserve currency competing with the dollar. Japan's intention to form an economic group with the countries of Southeast Asia may increase the importance of the yen in international business.

RECOMMENDATIONS

1. GLOBAL ECONOMIC PERFORMANCE

Arab countries should give all their attention to the importance of the adjustment of structural policies, and the reinforcement of the stability of their economies on the national and regional level. This includes the diversification of the structures of their economies, the eradication of sources of the waste of resources and the lack of competence. They should improve the investment environment and develop Arab savings so that they can be oriented towards the financing of Arab development.

2. CONCERNING ARAB STOCK MARKETS

Arab countries should endeavor to develop and connect Arab stock markets in the framework of the program set out by the Arab Monetary Fund. This program aims at satisfying the greatest part of the Arab countries' needs for investment from Arab savings, by providing the adequate environment and mechanisms needed to encourage the circulation of capital between Arab countries.

3. EVOLUTION OF ARAB NATIONAL AND INTERNATIONAL BANKS

A. The shareholders of Arab banks should raise capital and increase their level of competence and return. The banks should be allowed to expand the scope of their banking services to include insurance and the management of investment portfolios, and to decrease the dividends distributed to shareholders for a period sufficient to raise the level of capital. They should no longer keep undeclared reserves, and should include them in the counting of capital, in addition to attracting extra resources through the issue of shares that are negotiable in financial markets.

B. Banks which suffer from a high percentage of bad debts should be offered long-term loans to enable them to reinforce their financial position, to offer an exchange in the participation in their capital for some of the debts they owe and to restructure their assets in order to eliminate those with the highest risk.

C. Banks should be grouped into large size banking units capable of coping with the evolution of international banking and financial activities. This should be accompanied by the reinforcement and coordination of the control on banks in Arab countries in a way that is compatible with international norms.

D. Private and public sectors in Arab countries should be encouraged to give priority to Arab banks operating aborad when making external transactions and to raise their deposits in them.

4. ARAB TRADE

A. Arab trade should be promoted by means of Arab cooperation, cooperation with developing countries and dialogues with international entities regarding the freeing of trade and the dismantling of all trade restrictions.

B. Attempts should be made to intensify contacts and maintain the dialogue with EC countries in order to reconcile Arab and the European interests in the light of the creation of the Single European market. This dialogue should encompass the aspects of trade and development assistance, the situation of Arab workers in Europe, and all other aspects relating to Arab-European financial relations.

C. Attempts should be made to ensure that bilateral and collective agreements keep the preferential treatment which Arab countries have managed to gain after years of dialogue and efforts, and which is included in present commercial agreements signed with EC countries. This preferential treatment should be retained in the renewal of these agreement or when signing new ones.

5. ARAB FOREIGN INVESTMENT

A study should be made of the distribution of Arab investments abroad in terms of the different types of financial placement (direct investments, portfolio investments, bank deposits) in the light of the developments that may result from the creation of the Single European market. However, an eye should also be kept on the evolution of the position of currencies used for transactions, especially, the improvement of the relative position of the ECU and the Japanese yen. This should be done with a view to selecting the best possible distribution of Arab investments among the various investments, outlets and currencies.

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Table 1

Estimations of the Net of Loans in the International Market

(US$ billions)

Flows modulated accnrding to exchange rate variations (annual average)										
	.1975-79	1980-84	**1985-90**	**1985**	**1986**	**1987**	**1988**	**1989**	1990[0]	Value **End** Sept. **1990**
Bank loans	77	116	**258**	110	200	**305**	250	300	**295**	3,100
Bond financing	28	52	131	123	**156**	107	137	172	93	1,414
Global financing	101	**155**	342	**185**	290	385	340	495	355	4,145

Source: B1S, International Banking and Financial Statistics and Historical Data.

Table 2

Financial Flows to Industrialized and Developing Countries (Annual Average)

(US$ billions)

	1975-79	1980-84	1985-89
Industrial countries	99.1	175.7	463.3
Public sector	21.0	40.1	63.8
Private sector	78.1	135.6	399.5
Developing countries	52.1	105.5	110.0
Public sector	32.1	66.7	74.3
Private sector	19.9	38.8	35.8

(1) Direct, portfolio investments and long-term banking flows.

Source: IMF, Balance of Payments Statistics.

Table 3

The Net of Financial Flows to Arab Countries

(US$ billions)

	Average 1980	Average 1980-84	Average 1985-89	Estimations 1990
Net flow(1)				
Arab countries	-94.8	-21.5	10.0	-6.0
Oil countries'	-102.2	-31.5	1.6	-14.7
Other countries	-7.3	10.0	**8.4**	8.7
Direct Investment				
Arab countries	-4.0	3.8	0.4	-0.3
Oil countries	-4.5	2.9	0.2	-0.6
Other countries	0.5	0.9	0.2	-0.3
Private capital flows **and** export **loans**				
Arab countries	-64.1	-33.6	-3.5	-4.8
Oil countries	-62.5	-33.1	-1.9	-4.5
Other countries	-1.5	-0.5	-1.6	-0.1
Net external **borrowing**				
Arab countries	9.1	9.2	7.0	-4.5
Oil countries	4.2	4.3	2.9	-5.8
Other countries	**4.9**	4.9	4.1	1.3
Net long-term public loans"				
Arab countries	**4.8**	6.4	6.5'	5.7
Oil countries	0.4	1.2	1.9	1.5
Other countries	4.4	5.2	**4.6**	4.2
Net bank loans"				
Arab countries	5.0	**4.9**	2.3	-3.3
Oil countries	3.5	4.7	1.8	-2.8
Other countries	1.5	0.2	1.5	-0.5
Private transfers				
Arab countries	-3.3	-6.0	-4.9	-8.3
Oil countries	-10.6	-12.9	-11.8	-15.8
Other countries	7.3	**6.9**	**6.9**	**6.5**
Public transfers				
Arab countries	-3.2	-0.9	-1.5	-0.3
Oil countries	-0.7	-5.0	-1.9	-0.6
Other countries	3.8	4.1	3.4	0.3

Main Arab oil countries are UAE, **Bahrain** Algeria, Saudi Arabia, Iraq, Oman, Kuwait, Libya.

1 Current account deficit abated of public transfers.

2 Monetary authorities **loans excepted.**

3 Loans **of** offshore **banks** from **Bahamas, Bahrain, Hong** Kong, Antilles, **Panama and Singapore** are **excluded.**

Source: IMF, Balance of Payments Statistics.

Table 4

The Net Financial Flows to Developing Countries*

(US$ billions)

										percentage of the total	
	1981	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1981**	**1985**	**1989**
a) Public financing of economic **development**	45.5	44.2	42.4	47.7	**48.9**	56.3	61.6	66.0	69.0	33.1	**58.0**	62.5
Public development aid	36.8	33.9	33.9	35.0	37.0	44.5	48.3	51.6	53.1	26.8	44.2	48.1
Other varieties	8.7	10.3	8.5	12.7	11.6	11.8	13.3	14.4	15.9	**6.3**	13.8	14.4
b) **Export loans**	17.6	13.7	**4.6**	6.2	4.0	-0.7	-2.6	-0.5	1.2	12.8	4.7	1.1
D.A.C.	16.2	12.7	3.9	5.2	3.4	-0.9	-2.9	-0.9	1.0	11.8	4.0	0.9
Other countries	1.4	1.0	0.7	1.0	0.6	0.2	0.3	0.4	0.2	1.0	0.7	0.2
c) Private flows	74.3	58.2	47.9	31.7	31.4	28.2	34.5	40.4	40.2	54.1	37.2	36.4
Direct Investment(OECD)	17.2	12.8	9.3	11.3	6.6	11.3	21.0	25.1	22.0	12.5	7.8	19.9
International banking loans	52.3	37.9	35.0	17.2	15.2	7.0	7.0	5.8	8.0	38.1	18.0	7.2
Documentary credit	1.3	4.8	1.0	0.3	**5.4**	2.7	0.5	0.4	1.0	**0.9**	**6.4**	0.9
Other sources	1.5	0.4	0.3	0.3	1.3	3.9	2.5	**4.9**	5.0	1.1	1.5	**4.5**
NGO gifts	2.0	2.3	2.3	2.6	2.9	3.3	3.5	4.2	4.2	1.5	3.4	3.8
Net flows total (a+b+c)	137.4	116.1	**94.9**	85.6	84.3	83.8	93.5	105.9	110.4	100.0	100.0	100.0
		Prices and exchange rate of				**1988**						
Net flows total	201.9	174.5	143.0	131.7	128.3	103.4	100.3	105.9	11.5			
Total of Public financing of **development**	**66.8**	66.4	63.9	73.4	74.5	**69.5**	66.0	66.0	69.7			
Development aid total	54.137	51.0	51.1	**53.8**	**56.8**	**54.9**	51.8	51.6	53.6			
Total of public development aid from DAC	37.6	41.8	41.6	44.2	**44.8**	45.3	44.6	48.1	47.4			

Taiwan excepted.

Source: Development Cooperation, Paris, 1990.

Table 5

The Distribution of Foreign Direct Investment around the World

(US$ billions)

Bond's **average**							
	1975-79	**1980-84**	1985	1986	1987	**1988**	**1989'**
<u>International flows total</u>	27.6	53.3	48.2	**76.6**	112.0	139.9	184.7
Industrial countries	21.0	**36.9**	35.9	**64.6**	**.96.0**	123.5	161.2
Developing countries	**6.6**	**16.4**	12.5	12.8	**16.6**	17.5	18.1
Countries heavily indebted	3.6	5.3	4.5	3.7	6.1	8.7	8.1

* Some statistics for developing countries are estimated.

Source: IMF, Balance of Payments Statistics.

Table 6

Indicators of Investment Portfolio

(US$ billions)

A) Eurobond issues[1]

	1984	1985	1986	1987	1988	1989	1990
Industrial countries[2]	**66.8**	147.2	212.3	**166.6**	213.4	240.4	207.1
Developing countries	3.8	6.9	4.3	3.1	4.2	2.6	3.6
of which seven Asian countries	2.7	4.9	1.8	0.8	1.1	1.5	2.4
Eastern Europe	-	0.4	0.3	0.5	1.4	2.2	1.6
International Development Institutions	7.9	10.7	9.2	10.3	8.0	10.3	14.6

Source: **BIS, International Banking and Financing Market Developments, various issues and OECD Financial Statistics Monthly, various issues.**

B) Capitalization of stock markets

	End **1980**	End 1984	End 1988	End **1989**	End 1990*
Industrial countries	2,592.1	3,293.9	**9,402.8**	11,005.4	**8,985**
Developing countries	146.0	129.6	**466.9**	724.6	544
of which seven Asian countries[3]	87.0	73.2	345.1	**559.2**	410
Latin America	**39.9**	37.0	57.8	83.0	74

* Estimations

Source: International Cooperation, Emerging Stock Markets Factbook, 1990, updated.

1 International bonds and conventional bond issue.
2 EEC and OECD institutions.
3 Hong Kong, Singapore, South Korea, Taiwan, Indonesia, Malaysia, Thailand.

C) International acquisitions of equities and bonds(4)

	1983	1985	1988	1989
International portfolio(5)				
Equities	3,284	**4,667**	9,297	10,926
Bonds	4,318	**6,049**	10,067	10,622
Acquisition of non-residents(6)				
Equities	233	341	**619**	728
Bonds	345	**589**	1,148	1,357
Non-resident acquisitions/International Acquisition ratio				
Equities	7.1	7.3	6.7	6.7
Bonds	8.0	9.7	11.4	12.8

4
5 ADB, AsDB, IBBD, IaDB, IFC.
6 OECD, Israel and South Africa.
Argentina, Brazil, Chile, **Columbia,** Mexico, **Uruguay and** Venezuela.

Source. J. **P. Morgan,** World Financial Markets, 1990, (various issues).

Table 7 (a)

Total of International Transactions in Equities(1)

	1979	1980-84	1985	1986	1987	1988	1989	1990"
Value (US$ billions)	73	**198**	**385**	801	1,344	1,213	**1,598**	1,500
International equities transactions/ Inter-national transactions ratio	(6.3)	(9.8)	(10.4)	(12.1)	(11.6)	(11.4)	**(13.6)**	(13.5)
The record of transactions	100	209	277	403	**591**	**440**	**483**	**583**

Source: Howell and Cozzini, International Equity Flows: Are International Equities Ex-Growth?, London, Salomon Brothers, 1989.

,New Investors, New Risks and New Products, London, Salomon Brothers, 1990.

Table 7 (b)

The Flows of Investment in Shares

(US$ billions)

Items	Annual averages							Part of GDP %
	1975-79	1980-84	1985	1986	1987	1988	1989	1989
Flows from								
USA	0.2	1.7	3.7	1.2	-2.1	0.9	16.7	0.3
Japan	0.1	0.2	1.0	7.1	16.9	3.0	17.9	0.6
Main BC countries°	0.8	5.9	12.7	22.8	-0.5	20.7	43.3	0.9
Flows to								
USA	1.5	3.4	4.3	17.2	15.6	-0.5	6.6	0.1
Japan	0.6	3.5	-0.7	-15.8	-42.8	6.8	7.0	0.2
Main BC countries(2)	1.5	2.0	5.6	13.7	12.0	11.0	24.5	0.5
International flows total	1.2	8.7	20.2	36.7	18.0	23.6	84.3	0.6
Domestic flows total	2.6	10.8	16.9	26.1	3.9	19.4	49.0	0.4
Difference	1.4	2.1	3.4	10.5	21.9	4.2	35.4	

1. Fourteen countries' total.
2. Belgium, Luxembourg, France, Germany, Italy, Holland, Spain, Great Britain.

Remark: Outward flows indicate net sales of foreign assets belonging to non-residents, and inward flows indicate net sales of local assets belonging to foreigners.

Source: BIS, International Banking and Financial Market Developments.

Table 8 (a)

The Flows of Investment in Securities

(US$ billions)

Items	Annual average							Part of GDP %
	1975-79	1989-84	1985	1986	1987	1988	1989	
Total	16.7	40.1	107.7	156.9	107.2	178.8	186.1	1.3
USA	5.6	4.0	3.8	3.2	7.4	7.0	5.3	0.1
Japan	2.5	13.7	58.8	94.7	71.2	84.1	95.4	3.4
Main EC Countries(1)	3.2	14.3	38.4	51.9	23.5	70.2	72.9	1.6
Banking Flows in local Currency	8.8	17.1	76.5	87.2	78.8	110.5	158.8	1.1
USA	0.6	4.1	42.0	45.6	23.1	21.4	19.3	0.4
Japan	2.3	4.2	15.2	16.5	30.7	49.9	73.5	2.6
Main EC Countries(2)	3.9	5.9	16.5	19.3	20.4	28.4	56.6	1.2
Net flows								
Japan	0.2	9.5	43.6	78.2	40.6	34.2	21.9	0.8
Germany	- 0.2	3.6	6.4	1.0	12.9	39.1	21.1	1.7

1. Fourteen countries' total.
2. Belgium, Luxembourg, France, Germany, Italy, Holland, Spain, G.B.

Source: BIS, International Banking and Financial Market Developments.

Table 8 (b)

The International Market of Securities

(Parts in percentage at the end of periods)

	1980	1985	1988	1989
Total nominal value / GDP ratio	46	66	74	75
Evaluation currency				
U. S. Dollar	44	52	46	48
Yen	17	18	22	19
D. M.	10	7	8	8
Other currencies	29	23	24	25
Markets				
International	4	7	10	10
Domestic	96	93	90	90

Source: Rosario Benavides, How Big Is the World Bond Markets? Salomon Brothers, New York, 1990.

Table 9

The Net of Short-Term Bank flow

(US$ billions)

Items	Annual avenge							Put of GDP%
	1975-79	1989-84	1985	1986	1987	1988	1989	
Toter°	11.5	2&1	39.5	84.1	118.3	87.3	61.5	0.4
USA	- 1.9	- 3.6	26.1	31.4	49.2	3.9	12.0	0.2
Japan	1.4	6.7	10.9	58.5	71.8	44.5	8.6	0.3
Main EC Countries (2)	9.3	19.4	0.6	2.5	- 3.5	26.1	6.1	0.1
Banking flows in local Currency(3)								
USA	- 4.5	-14.6	32.1	19.9	48.3	11.3	19.2	
Japan	- 1.5	- 1.8	- 4.2	- 14.5	- 2.6	- 15.5	- 16.9	
Mao EC Countries(2)	3.0	- 3.9	- 7.5	- 24.9	11.5	19.3	- 2.4	1.2

1. Total Fourteen countries.
2. Belgium, Luxembourg, France, Germany, Italy, Holland, Spam, G.B.
3. Takes into account only the average variation of the external banking position, in order to eliminate the variation of exchange rates.

Source: BIS,)<u>International Banking and Financial Market Developments.</u>

Table 10 (a)

The Net of Public Development Aid to the Developing Countries from Industrialized Nations and Multilateral Institutions (Net drawing)

(US$ billion and in percentage to GDP)

COUNTRY	Average 1978-80* Value	%	1981 Value	%	1985 Value	%	1986 Value	%	1987 Value	%	1988 Value	%	1989 Value	%
Australia	628	0.52	650	0.41	749	0.48	752	0.47	627	0.34	1,101	0.46	1,020	0.38
Austria	154	0.23	220	0.33	248	0.38	198	0.21	201	0.17	301	0.24	283	0.23
Belgium	591	0.54	575	0.59	440	0.55	547	0.48	687	0.48	601	0.39	703	0.46
Canada	1,064	0.47	1,189	0.43	1,631	0.49	1,695	0.48	1,885	0.47	2,347	0.50	2,320	0.44
Denmark	443	0.72	403	0.73	440	0.80	695	0.89	859	0.88	922	0.89	937	0.94
Finland	85	0.20	135	0.27	211	0.40	313	0.45	433	0.49	608	0.59	706	0.63
France	3,439	0.60	1,177	0.73	3,995	0.78	5,105	0.70	6,525	0.74	6,865	0.72	7,450	0.78
Germany	3,102	0.42	3,181	0.47	2,942	0.47	3,832	0.43	4,391	0.39	4,731	0.39	4,949	0.41
Ireland	28	0.18	28	0.16	39	0.24	62	0.28	51	0.19	57	0.20	49	0.17
Italy	444	0.13	666	0.16	1,098	0.26	2,404	0.40	2,615	0.35	3,193	0.39	3,613	0.42
Japan	2,751	0.27	3,171	0.28	3,797	0.29	5,634	0.29	7,342	0.31	9,134	0.32	8,949	0.32
Holland	1,392	0.90	1,510	1.07	1,136	0.91	1,740	1.01	2,094	0.98	2,231	0.98	2,094	0.94
New Zealand	65	0.33	68	0.29	54	0.25	75	0.30	87	0.26	104	0.27	87	0.22
Norway	423	0.90	467	0.85	574	1.01	798	1.17	890	1.09	985	1.13	917	1.04
Sweden	911	0.85	919	0.83	840	0.86	1,090	0.85	1,375	0.88	1,534	0.86	1,799	0.97
Switzerland	213	0.22	237	0.24	302	0.31	422	0.30	547	0.31	617	0.32	558	0.30
Great Britain	1,825	0.43	2,192	0.43	1,530 '	0.33	1,737	0.31	1,871	0.28	2,645	0.32	2,587	0.31
USA	5,829	0.24	5,782	0.19	9,403	0.24	9,564	0.23	9,115	0.20	10,141	0.21	7,659	0.15
DAC **Total**	23,388	0.36	25,568	0.34	29,429	0.35	36,663	0.35	41,595	0.35	48,114	0.36	46,679	0.33

"Administrative expenses are excluded except for USA.

Source: OECD, Development Cooperation, Paris, 1990.

Table 10 (b)

Compared Payments of Countries which Grant Development Assistance

(Net drawing)

	1973	1974	1975	1976	1977	1978	1979	1980
(US$ million)								
Arab countries members of OPEC purveyors out aid	2,183	4,001	5,417	5,074	5,761	7,498	7,252	9,586
Non-Arab	24	483	691	940	230	354	120	98
DAC	9,077	11,619	13,854	13,962	15,742	20,018	22,018	27,297
Non-members of DAC	11	13	16	64	117	170	170	174
COMECON Countries	1,161	997	1,502	1,438	1,533	1,664	2,033	2,827
Other Purvoyors	479	428	433	454	442	484	358	538
Development aid total	12,935	17,541	22,913	21,932	23,825	30,188	32,782	40,520
Part of global aid								
Arab countries members of OPEC purveyors of aid	16.9	22.8	24.7	23.1	24.2	24.8	22.1	23.7
Non-Arab	0.2	2.8	3.2	4.3	1.0	1.2	0.4	0.2
DAC	70.2	66.2	63.2	63.7	66.1	66.3	69.7	67.4
Non˙members of DAC	0.1	0.1	0.1	0.3	0.5	0.6	0.5	0.4
COMECON Countries	9.0	5.7	6.9	6.6	6.4	5.5	6.2	7.0
Other purveyors	3.7	2.4	2.0	2.1	1.9	1.6	1.1	13
Dovelopment aid total	100.0	100.0	103.0	103.0	100.0	100.0	100.0	100.0
Part of CNP								
Arab countries members of OPEC purveyors of aid	5.88	4.87	5.33	4.00	3.81	4.45	3.28	3.27
Non- Arab	0.04	0.48	0.60	0.67	0.14	0.22	0.06	0.04
DAC	0.29	0.33	0.35	0.33	0.33	0.35	0.35	0.37
Non-members of DAC	0.02	0.01	0.02	0.06	0.09	0.11	0.09	0.06
COMECON Countries		-			-	-		
Other purveyors		-	-	-	-	-	-	-

Table 10 (b) (continued)

Compared Payments of Countries which Grant Development Assistance

(Net drawing)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
(U. S. $ million)									
Arab countries members of OPEC purveyors of aid	8,308	5,784	4,798	4,360	3,609	4,498	3,290	2,262	1,487
Non-Arab	94	- 10	187	193	5	206	44	107	27
DAC	25,568	27,777	25,593	28,742	29,429	36,663	41,595	48,114	46,672
Non-members of DAC	253	248	108	181	227	273	285	368	725
COMECON Countries	2,824	3,053	3,478	3,402	3,618	4,602	4,965	4,663	4,307
Other purveyors	417	472	357	311	363	517	435	320	346
Development aid total	37,464	37,324	36,521	37,189	37,251	46,759	50,614	55,834	53,564
Part of global aid									
Arab countries members of OPEC purveyors of aid	22.2	15.5	13.1	11.7	9.7	9.6	6.5	4:1	2.8
Non-Arab	0.3	- 0.0	0.5	0.5	0.0	0.4	0.1	0.2	0.1
DAC	68.2	74.4	75.6	77.3	79.0	78.4	82.2	86.2	87.1
Non-members of DAC	0.7	0.7	0.3	0.5	0.6	0.6	0.6	0.7	1.4
COMECON Countries	7.5	8.2	9.5	9.1	9.7	9.8	9.8	8.4	8.0
Other purveyors	1.1	1.3	1.0	0.8	1.0	1.1	0.9	0.6	0.6
Development aid total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Part of GNP									
Arab countries members of OPEC purveyors of aid	2.34	1.70	1.61	1.54	1.33	1.79	1.21	0.84	N.A.
Non-Arab	0.04	0.00	0.06	0.06	0.00	0.08	0.02	0.04	N.A.
DAC	0.34	0.38	0.36	0.36	0.35	0.35	0.34	0.36	0.33
Non-members of DAC	0.10	0.10	0.05	0.08	0.10	0.09	0.08	0.08	0.15
COMECON Countries	-	-	-	-	-	-	-	-	-
Other purveyors	-	-	-	-	-	-	-	-	-

Table 11 (a)

Arab Development Aid (Net drawing)

(US$ millions)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	-	1980-1989	
													Total	%
All Arab Countries	385	5,416	9,538	8,247	5,785	4,799	4,366	3,611	4,499	3,284	3,284	1,526	47,912	100.0
G.C.C.	320	1,845	8,217	7,728	5,560	4,627	4,312	3,531	4,338	3,219	2,143	1,366	45,041	94.0
UAE'	-	929	1,118	805	406	351	88	122	87	15	(17)	25	3,000	6.3
Saudi Arabia	172	2,699	5,682	5,514	3,854	3,259	3,194	2,629	3,517	2,888	2,048	1,171	33,756	70.5
Qatar	-	307	277	246	139	20	10	9	19	-	4	1	725	1.5
Kuwait	148	910	1,140	1,163	1,161	997	1,020	771	715	316	108	169	7,560	15.7
Other Arab Countries	65	571	1,321	519	225	172	54	80	161	65	114	160	2,871	6.0
Algeria	1	31	81	55	129	37	52	54	114	39	13	41	615	1.3
Iraq	-	265	864	207	52	(9)	(23)	(32)	(21)	(37)	(28)	37	1,010	2.1
Libya	64	275	376	257	44	144	25	58	68	63	129	82	1,246	2.6

1 **Incomplete data after 1983.**

Source: **OECD, Development Corporation, Paris, 1990.**

Table 11 (b)

The Percentage of Arab Development Assistance in the GNP

(Percentage)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
All Arab Countries	2.19	5.49	3.26	2.40	1.80	1.60	1.52	1.30	1.78	1.23	0.88	-
G.C.C.	-	-	-	3.30	2.80	2.60	2.61	2.40	3.33	2.42	1.69	-
UAE1	00.0	10.38	4.06	2.50	1.40	1.30	0.32	0.40	0.42	0.08	0.02	0.10
Saudi Arabia	5.57	7.60	4.87	3.40	2.80	2.80	3.02	2.90	4.41	3.66	2.70	1.46
Qatar	00.0	14.17	4.16	3.50	2.20	0.30	0.19	0.20	0.45	0.09	0.18	-
Kuwait	6.19	6.91	3.52	3.60	4.20	3.80	3.85	3.20	2.89	1.20	0.43	0.54
Other Arab Countries	-	-	-	0.50	0.20	0.10	0.04	0.10	0.13	0.05	0.09	-
Algeria	0.02	0.22	0.20	0.10	0.30	0.10	0.10	0.10	0.18	0.04	0.02	-
Iraq	0.00	2.01	2.36	0.60	0.10	0.00	(0.05)	(0.1)	(0.05)	(0.08)	(0.04)	-
Libya	1.89	2.43	1.16	0.20	0.10	0.50	0.10	0.20	0.33	0.30	0.51	-

1 Incomplete data after 1983.
Source: Arab Economic and Social Development Fund Statistics, OECD, Development Corporation, Paris, 1990.

Table 12

The Evolution of Arab Trade* with EEC Countries

	1976	1980	1986	1989	1990
Arab foreign trade total (1)	135,505	345,195	163,032	207,898	251,914
Arab countries-EEC trade (2)	103,633	141,055	70,774	68,394	88,732
2/1 Ratio	76.0	40.9	43.3	32.9	35.2
Part of Arab-EEC trade to GDP	57.9	32.1	19.6	17.3	21.4
	1976/80	1980/86	1986/89	1990	
Growth rate of Arab foreign trade	26.3	18.8	8.4	21.2	
Growth rate of Arab-EEC trade	8.0	10.9	1.1	29.7	

* Equality of trade balance.

Source: AMP, *The Effects of the Single Market on Arab Trade,* Abu Dhabi, August, 1989.

Table 13

The External Financial Situation of Joint Banks in Regard to Arab Countries (All Economic Sectors) (At the end of the year)

(US$ millions)

Country	Assets					Liabilities				
	1986	1987	1988	1989	1990	1986	1987	1988	1989	1990
Algeria	12,511	14,571	13,788	13,592	14,912	1,928	1,918	1,656	2,135	2,510
Bahrain	12,517	16,518	16,725	17,697	15,189	19,175	24,321	25,581	27,618	20,488
Egypt	7,473	7,652	6,741	6,686	6,898	8,217	9,505	9,733	12,171	17,448
Iraq	7,182	8,137	8,845	8,355	7,842	1,207	2,330	2,029	3,391	3,518
Jordan	1,574	2,236	2,500	2,447	2,541	2,544	2,991	2,780	4,045	4,785
Kuwait	7,760	7,519	7,051	7,886	8,020	13,494	15,664	14,581	18,191	23,007
Lebanon	1,357	1,870	1,758	1,843	2,023	7,265	7,990	8,300	10,927	12,197
Libya	892	712	1,507	1,928	1,479	6,136	6,884	4,932	4,630	6,685
Mauritania	129	123	148	122	148	87	82	130	142	151
Morocco	5,198	5,649	5,077	5,174	5,307	949	1,274	1,413	2,215	3,633

Table (13) (continued)

Country	Assets					LiabOlties				
	1986	1987	1988	1989	1990	1986	1987	1988	1989	1990
Oman	2,187	2,003	1,887	1,894	1,626	2,440	2,877	2,682	4,141	4,776
Qatar	512	628	841	878	1,296	3,320	3,561	3,439	3,856	4,726
Saudi Arabia	10,078	12,377	12,819	14,635	12,769	44,557	55,397	66,046	79,881	85,812
Somalia	49	48	26	64	31	101	121	113	178	249
Sudan	1,171	1,136	951	961	1,066	1,079	1,084	1,201	1,407	1,611
Syria	1,202	1,179	1,006	968	947	1,318	1,603	1,636	2,606	4,520
Tunisia	1,970	2,063	1,884	1,732	1,641	743	1,027	1,473	1,773	1,463
UAE	8,187	7,545	9,513	9,567	10,305	23,562	25,537	30,768	37,608	41,757
Yemen	482	365	497	489	525	1,139	1,149	833	1,178	1,641
Total	82,631	92,241	93,164	96,918	94,565	139,161	165,315	179,375	218,093	240,977
Debit balance	56,530	73,074	86,211	121,175	146,412					

*** In favor of Arab countries.**

Source: BIS, ***International Banking and Financial Market Development, May,*** 1991**.**

Table 14

The Foreign Banking, Commercial Non-banking Liabilities of European Countries

(US $ millions)

Borrowing countries	**December 1989**	**December 1990**
Algeria	20,027	20,481
Bahrain	961	1,089
Egypt	18,771	13,737
Iraq	13,795	13,995
Jordan	3,261	3,519
Kuwait	8,096	8,200
Lebanon	1,580	1,788
Libya	2,841	2,198
Mauritania	196	238
Morocco	7,267	7,917
Oman	1,990	1,798
Qatar	923	1,044
Saudi Arabia	16,476	14,634
Somalia	379	360
Sudan	1,888	2,115
Syria	1,313	1,293
Tunisia	2,505	2,463
UAE	9,868	10,743
Yemen	695	801
Total	108,411	115,832

Source: BIS, *Statistics on External Indebtedness,* July, 1991.

Table 15

The Geographic Distribution and Composition of Currencies Making up Arab Deposits from the End of 1983 until Mid-1990

(US$ billions)

	Total amount of deposits			
	1983	1986	1989	Mid-1990
In banks in industrialized countries:				
Currencies:				
US Dollars	57.6	50.8	70.6	67.6
Pound Sterling	4.3	5.3	9.1	10.2
Deutch Mark	7.0	6.8	6.9	8.2
J. Yen	3.5	4.2	5.2	5.4
F. F.	1.0	1.1	1.8	2.1
S. F.	2.3	1.8	1.2	1.4
Other currencies	5.8	5.3	6.0	7.6
Total	81.5	75.3	100.8	102.5
Countries:				
North America	7.3	7.3	10.3	10.6
G. B.	44.6	40.6	49.1	51.0
Other European countries	24.2	20.6	27.5	28.1
Japan	5.4	6.8	13.9	12.8
Total	81.5	75.3	100.8	102.5
Offshore banks:[1]				
Caribbean	4.4	3.9	5.4	7.5
Other banks	32.9	33.9	48.0	42.7
Total	37.3	37.8	53.4	50.2

* This includes the deposits of Middle Eastern countries which are members of OPEC of which Iran's deposits represent 3.8% of the total. Source: BIS, *International Banking and Financial Market Developments,* November, 1990.

Table 16

The Geographic Distribution and Composition of Currencies Making up Arab Deposits from the End of 1983 until Mid-1990

(US$ billions)

	Total amount of deposits			
	1983	1986	1989	Mid-1990
In banks in industrialized countries:				
Currencies:				
US Dollars	16.4	14.6	20.7	20.7
Pound Sterling	0.6	1.2	1.5	1.9
Deutch Mark	1.2	2.8	3.9	4.1
J. Yen	1.5	2.4	2.8	2.7
F. F.	0.4	0.4	0.6	1.1
S. F.	0.8	1.0	1.0	1.3
Other currencies	2.0	2.1	2.7	2.6
Total	22.9	24.5	33.2	34.4
Countries:				
North America	5.0	4.3	10.3	11.0
G. B.	8.8	7.6	8.4	8.7
Other European countries	7.0	9.6	11.5	11.7
Japan	2.1	3.0	3.0	3.0
Total	22.9	24.5	33.2	34.4
Offshore banks:[1]				
Caribbean	1.9	2.9	2.9	2.9
Other banks	19.2	16.9	23.7	19.7
Total	21.1	19.8	26.6	22.6

Source: BIS, ***International Banking and Financial Market Developments,*** November, 1990.

COMMENTS

Brahim Amiri'

I would first like to congratulate Mr. Osama Jaafar Faquih for the quality of his paper which provides very useful financial information about the Arab World.

The figures provided about the income surpluses of Arab oil exporting countries when compared with the debt and borrowing needs of other Arab countries raises many questions, especially when we consider the way these surpluses have been used.

One could of course imagine the level of development the Arab World would have reached, had a large part of the oil surplus been invested in the Arab World.

On this point, I do not fully agree with the author when he says that "the Arab surplus was exported to industrialized countries because the investment climate was not adequate in other Arab countries". I would have understood such a statement had it come from an American or a European private investor, but not from an Arab financial institution.

The investment climate is linked with political and social stability and the state of the market. Political and social stability are related to the level of economic development, and, of course, economic development depends on the volume of investment. So, we find ourselves in a vicious circle. What should start first?

Immediately after the 1973 rise in the price of oil, Western economists began speculating on the way the Arab capital surplus was going to be used, how the Arab were going to take control of Western companies, how Sudan alone was going to meet the needs of the Arab World in agricultural products, etc.

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The Western World was not ready to allow all of this to happen and has managed to set a trap for our brothers who blindly fell in it. The result of this behavior is that almost twenty years later, these same countries have not reached a good level of development or of economic freedom; on the contrary, they have even in certain cases started recording deficits.

In other words, I think that the Arab oil producing states, if they had invested heavily in other Arab countries, would have contributed to raising the level of their economic development and the income of their population and at the same time would have reduced political and social instability. Situations like the one we have just experienced in the Gulf would not have happened.

This brings me to another statement with which I disagree. The author says that "The Arab donor countries are developing countries, lacking .... the development aid provided by these countries on a concessionary basis, with no consideration of political influence, makes it unique of its kind and an ideal example of cooperation between developing countries. In addition, the Arab donor countries do not impose any conditions on the use of the proceeds...."

My opinion is that they should have lent (and not necessarily given) more and should have imposed conditions to make sure that the money was used in an efficient way for economic development purposes.

It is of course too late to express regrets about the past; but let us take a lesson from it.

The other lesson we should seriously consider is that of the development of the EEC which understood over forty years ago that in spite of all the differences and the wars that existed between them, it was in their interest to work with each other and to unite their efforts to develop and protect their economies in order to become a major force.

Let us consider in particular the large and rapid changes that have taken place in Spain, for example, thanks to investments that were made in the country since it was accepted into the EEC. Another example to consider is the reaction of EEC countries in helping Eastern Europe to reconstruct and develop its economy.

The difficulties that Arab financial institutions have faced in the Western World, as they were described in the paper, will certainly help them to reconsider their strategies and hopefully direct a larger part of their actions towards Arab and Islamic countries. An example comes to my mind, and I think it illustrates a similar situation. In Morocco, tourism has been developed as a priority sector. However, all of this sector was oriented towards foreign clientele. At the beginning of this year, because of the Gulf crisis, foreign tourists stopped coming and our hotels were empty. After a couple of months, these hotels made some special offers to local tourists during spring vacation and the result was that they were all booked up. Since then, they have been reviewing their strategies and programs and giving more and more importance to local sources of income.

Apart from these points, I fully support the recommendations made by the author with an emphasis on the recommendation concerning the promotion of commercial ties between Islamic countries. This recommendation should be tied to a recommendation to our financial institutions to review their risk assessment process and their strategies in order to become more involved in Islamic countries.

6

INDUSTRIAL COOPERATION BETWEEN THE ARAB REGION AND THE EC/OECD

Mahfoud Bouhacen*

I. INTRODUCTION

The first years of the 1990s are witnessing a series of major changes affecting the regional and international context of the traditional relations between the Arab region and EC/OECD countries. The convening of this seminar at the present time could not be more appropriate for a number of reasons.

First, recent years have shown an acceleration of the changing parameters and driving forces shaping the global economy, fuelled by the rapid technological advances in industrial products processes, product development and forms of company interactions. The modes of international competition are being transformed at a time when the Arab region is itself confronted with major industrial restructuring programs stressing the export imperative, the search for competitiveness and the need to privatize important industrial assets established within the public sector during the investment-intensive period of the 1970s and early 1980s.

Second, recent developments in international economic relations have been marked by strong tendencies for a gradual regionalization of trade and finance flows (European Community, 1992; USA-Canada Free Trade Agreement; Pacific Basin initiative), which may lead to increased market segmentation or alliances between the various blocs. The emergence of new standards and environment regulations in industrialized countries will enforce changes of production processes and products in developing countries as well.

The creation of a unified European Common Market after 1992 may lead to a possible diversion effect on Arab exports of manufactured goods to

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the EC and could affect the industrialization process of Arab countries. Today, the magnitude of this diversion effect seems to be even larger considering the integration schemes of Eastern European countries. Recent events in the USSR could add to these. consequences if autonomous Republics of the Soviet Union were to benefit from further integration or cooperation schemes with the EC.

The third event to be taken into consideration is the Gulf crisis which has deeply affected the relations, alliances and cooperation schemes of Arab countries. Of the three Arab regional subgroupings established before the Gulf War, only the Arab Maghreb Union and the Gulf Cooperation Council are pursuing their cooperation schemes. The Arab Cooperation Council has been interrupted. However, new cooperation schemes are being formed between Saudi Arabia and Egypt, suggesting that new cooperation schemes could take place between Arab countries with large populations and the wealthy Arab countries of the Gulf with small populations.

The combination of these forces and events makes the future course of events in Arab countries unpredictable, and leads to uncertainties in terms of the industrial development trends, investment, trade policies and co-operation prospects of the region with its major economic partners, the EC and OECD countries.

As an international organization, mandated to play the central coordinating role in the field of industrial development, UNIDO has to closely monitor international developments and effectively advise and assist the various national/regional actors in these new and changing conditions.

These developments also entail major challenges for UNIDO itself: UNIDO may have to address new types of clients for new types of services under new financing and organizational arrangements. New approaches also have to be designed in order to adjust technical assistance programs to industrial trends and to the cooperation prospects of the region in order to allow the Organization to assume its leading role in international industrial development.

Taking into account the changing regional and international context, this paper will attempt to:

1. Make a brief presentation of the current macroeconomic outlook and industrial development perspectives of the Arab region;

2. Analyze the regional and international context influencing industrial co-operation between Arab and EC/OECD countries;

3. Provide an overview of industrial cooperation for industrial investments and manufactured trade between these countries;

4. Present the current technical assistance of UNIDO to assist the governments of the Arab region and outline some ideas regarding the adjustment of this technical assistance to the prevailing industrial trends and cooperation prospects of the region.

II. INDUSTRIAL DEVELOPMENT TRENDS IN ARAB COUNTRIES

Seventeen years after the "oil shock" of 1973-1974, the economic and social landscape of Arab countries has been deeply transformed. Having recovered control of their national resources of oil and gas, Arab oil-producing countries, along with their neighbors have launched huge and comprehensive programs of industrialization.

At the outset of the second industrialization phase, the Arab region is endowed with the following substantial advantages :

1. Having a combined internal market of more than 200 million people, substantial resources of strategic metals, minerals, oil and gas, and fertile agricultural lands along the Mediterranean basin as well as in the Tigris, Euphrates and Nile river valleys, the 20 Arab states are determined to move from the stage of being primarily commodity exporters to exporters of industrial products and manufactured goods.

2. An important infrastructure, and a sizeable industrial sector exist in most Arab countries, particularly oil producers. Total investments for the period 1963/1990 exceeded US $1.5 trillion.

3. A considerable domestic market allowing economies of scale for the manufacturing of numerous products, to be substituted to yearly import of US $84 billion, two-thirds of which were manufactured products.

4. Substantial human resources are available, although unequally distributed in terms of number and level of valorization.

Determined to reduce their dependence on oil and to employ a rapidly growing new generation, the Arab states are committed to promoting their own value added in manufacturing. The productive base rose from only US $24,000 million in 1965 to more than US $380,000 million by the end of 1989.

However, this sizeable progress should not hide real obstacles and shortcomings. Despite the establishment of powerful industries, industrial projects are fragile, and the integration of the region remains difficult to achieve.

New development plans in Arab countries (1985-1990) show that a noticeable change has occurred in the type and size of planned projects. The attention is clearly shifting from huge industrial schemes and ambitious plans to more soundly beneficial schemes involving agriculture, health, housing, education and the improvement of basic infrastructures. The nature of industrial projects is also changing from the extravagant duplication of prestigious schemes to more complementary and cost conscious projects. The new breed of investors is better educated and informed than before: showing more interest in the quality and profitability of projects and in their environmental impact rather than the speed of erection; insisting on higher standards of construction; considering more repairs and maintenance implications and emphasizing the level of local participation and inputs in future projects.

The size, the type and the implementation strategies of projects are going to be quite different from what they were during the period 1963-1985. On one hand, one can reasonably assume that the current sectoral distribution reached after two decades of investments created a certain profile and content of investments. On the other hand, the typical sectoral distribution of the period ending 1985 will be influenced by the new trends noticed in most Arab countries' plans for the period 1985-1990.

The emphasis in Arab countries is likely to be upon the following five major fields:

A. Water supply for drinking consumption, agriculture and industry

The population growth (121 million in 1970, 290 million in 2000) associated with a similarly high rate of growth of urbanization will require additional large water supply capacities and investments in dams, water desalination plants and water transport and distribution networks. It will also require water conservation policies calling for water saving industrial processes and technologies. The extensive use of plastic pipin^g and feed dripping in agriculture is an example of using cheap energy to save future water supplies.

B. Housing and social services infrastructures

These services are expected to witness an unprecedented development in the 1990s. Rich Gulf Arab countries with small populations have almost reached a reasonable level of satisfaction in the housing sector. However, they still have to meet the requirements related to a high rate of population growth and urbanization.' The most populated Arab countries are all far from reaching an acceptable level of satisfying the demand for housing. They not only have to undertake huge housing schemes to meet the accumulated deficit in housing' for the present level of population, but they also must meet the future requirements arising from population growth and urbanization.

Building materials industries, despite a high rate, of growth during the last 20 years, will continue to develop rapidly in order to keep pace with the population growth and satisfy the increasing needs in housing, education, health and social infrastructures in general.

There is large scope for the adaptation and creation of new technologies, notably to enhance the use of local raw materials for construction.

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1. The highest population growth rates in Arab countries for the period 1980/1989 were recorded in Saudi Arabia (5.0%), Libya (4.2% and Kuwait (4.4%). Source: World Development Report 1991, World Bank.

2. In Algeria, studies showed that the occupancy rate per flat was still 6-7 persons in 1985. Source: CNAT, Algiers.

C. **Extracting industries** (mainly **oil and** gas)

Financial resources from oil and gas will remain the major source of income for sustaining the development of Arab countries during the next decade.

It can be assumed that the depletion of existing oil/gas fields will justify the pursuance of investment programs which have been canceled or postponed due to the oil glut of the 1980s.

These investments will call for technological processes in the area of fields development (onshore and offshore production facilities, gathering networks, pipelines) and related utilities. The progressive depletion of oil fields will call for enhanced recovery technologies (gas-lift, gas and water injection, etc.).

D. From basic to downstream industries

The important financial resources from oil and gas have allowed oil-producing Arab countries (particularly GCC countries) to invest heavily during the past 20 years in basic industries without pursuing much development in downstream activities.

The pressure of rapid population growth will certainly impose a broad diversification in downstream industries at least in Arab countries with large populations (with a priority for nondurable consumption products). The move from basic to downstream industries will certainly constitute a main trend in the shape of few industrial investment and technological processes requirements.

E. Local manufacturing of intermediate products and capital goods

Given the level of industrialization reached by Maghreb countries, it seems that investments will increasingly be channelled towards intermediate and capital goods industries. The region's industry is mainly manufacturing end products and experiencing a heavy dependency on imported inputs and equipments which leads to inefficiency and undercapacity utilization and requires protection and subsidies. The final report of the meeting on industrial cooperation between Maghreb countries (Tunis, October 1990) prepared by the officials of the Ministries of Industries requests UNIDO to assist the regional restructuring and development of the following subsectors:

1) Engineering industries;
2) Electronics and informatics;
3) Textiles and leather;
4) Pharmaceutical industries;
5) Cold storage and agro-food industries.

Among the selected studies, only the engineering and electronics and informatics subsectors can be considered to be "horizontal activities" providing inputs to other "vertical" sub-sectors. More attention will be devoted to the input requirements of each subsector in terms of raw materials, intermediate and capital goods and also in terms of services to industry required for rehabilitation, management operation, maintenance and *training.*

Markets that once were wide open to suppliers of industrial and consumer goods from the United States, the EC countries, Japan and the Far East will be increasingly oriented towards local production to satisfy local needs, thereby reducing the region's dependence on imports.

Arab demand for certain manufactured goods, cars and trucks, machinery, textiles, processed foods, chemicals, electronic and consumer goods is likely to diminish relative to the increasing demand for capital goods, industrial plants, technology, training and services.

The completion of vital infrastructural projects in the Gulf states, combined with the expansion of transport and communications links throughout the region, is also creating more awareness and self-confidence which is reflected in a rising internal demand for products and technology suited to existing levels of development and capable of being absorbed without damage into cultural values and traditions.

In Egypt and North Africa, foreign investors will be encouraged to establish new offshore industries to supply the Single Market being set up in the EC in the early 1990s. However, previous practices of producing low value added goods using inexpensive labor will be discouraged, not least because these projects will find entry into the EC more difficult after the Single Market comes into force in 1992. Instead, the production of consumer goods, such as foods, high-tech electronics and designer clothes, will be emphasized as will those industries which contribute to the transfer of technology and to the *training* of indigenous workforces.

American, European and Japanese exporters of manufactured and consumer goods are already being encouraged to set up joint ventures in the Gulf states to preserve their market shares, and this process is beginning to expand rapidly to the more populous Arab countries such as Egypt, Sudan, Iraq, Algeria and Morocco.

Efforts by some of these countries to reduce the level of state ownership in industry, promote privatization schemes, and create new incentives for the private sector in industrial production will give added impetus to this process, particularly since the poorer Arab states are seeking to attract more foreign investment as a way of both reducing their rising levels of foreign debt and providing employment for their rapidly growing populations.

Throughout the area, the determination to raise standards of living in line with rising local expectations is leading to a greater emphasis on quality and service, as well as on training and maintenance. Producers of manufactures goods, whether public or private, local or foreign, will be expected to adhere to improved standards of performance and efficiency.

Marketing and management, areas that have often been neglected in the past, will be given more attention, both to ensure project feasibility and to reduce costs. Companies that cannot perform to these standards will no longer be subsidized at government expense or given privileged access to local and regional markets.

III. ARAB REGIONAL COOPERATION AND REGIONALIZATION TRENDS IN THE GLOBAL ECONOMY

Growing interest is given to industrial cooperation among Arab countries and will certainly require the technical assistance of the UN system. Before the Gulf crisis these cooperation schemes were based on the following three subregional institutions:

1. The Gulf Cooperation Council (Saudi Arabia, Kuwait, Qatar, Bahrain, the UAE and Oman);
2. The Arab Cooperation Council (Egypt, Iraq, Jordan and Yemen);
3. The Arab Maghreb Union (Algeria, Morocco, Tunisia, Mauritania and Libya).

The GCC and Maghreb initiatives are progressing as a coherent response to the general trends of regionalization taking place in the global economy. These two subregional groupings will be in more of a position to present their point of view and have their economic influence taken into consideration in the global negotiations taking place with the trading blocks of the EC, Japan and its Asian satellites, and the more recent regional market shaping up on the American continent. The recent uncertainties and difficulties surrounding the GATT negotiations and the Uruguay Round make the regionalization restructuring even more necessary in the face of the protectionist tendency taking place between the major trading blocks.

The Gulf crisis interrupted the progress of the Arab Cooperation Council. However, cooperation is taking place between Saudi Arabia and Egypt, suggesting that the end of the Gulf crisis will witness a surge in cooperation between Middle East oil rich Arab countries and Arab countries with large population.

Inter-Arab trade, which now accounts for only a small fraction of the Arab World's combined exports, will also be given added priority, both by individual governments and by the regional aid funds and investment banks. As a result, tariffs may be raised, quotas imposed or new trade barriers erected to protect the region's new industries and/or to promote self-sufficiency in certain strategic industries such as vehicle manufacturing and food processing.

Moves towards subregional integration are being accompanied by new regulations governing the degree of foreign participation allowed in certain low-technology industries, and foreign partners will increasingly be required to hire and train local staff as a prerequisite to obtaining government-subsidized loans, tax holidays, import dispensations, working permits and access to foreign exchange.

Arab capital exports from the oil-producing Gulf countries which have predominantly been invested in Western countries, are being directed more towards investment in local industries, either in conjunction with foreign partners or as joint Arab ventures, in order to provide funds to finance industrialization projects in both the public and private sectors. The post Gulf crisis period is witnessing important financial flows between the Gulf countries, Egypt and Syria, and industrial cooperation schemes are emerging between these countries. More recently, discussions resumed between Gulf and

Maghreb countries on investment cooperation, mainly between Kuwait and Tunisia, on the one hand, and Saudi Arabia and Morocco on the other. Economic ties between Egypt and Libya are developing steadily, and the inauguration of the first phase of the man-made river project is expected to mobilize substantial numbers of Egyptian workers.

Economic integration within the region as a whole, through the prior integration of submarkets in the Gulf states, the Levant and North Africa, will further enhance the prospect of creating a unified regional market while at the same time channelling the area's highly skilled workforce to those areas where they can be most usefully deployed.

As the international economy is increasingly reoriented towards the creation of large trading and financial powers consisting of the United States and Canada, an integrated Europe, Japan and Southeast Asia, the Arab region is gradually developing its cooperation with Asian Muslim countries.

Trade and investment links with other Muslim communities in Afghanistan, Bangladesh, the Soviet Republics of Central Asia, Indonesia, Malaysia and China can be expected to be emphasized in the longer term, as the Arab states of the Gulf, in particular, renew their historic ties with these areas in a form that combines the wealth of Arab capital and hydrocarbon resources with the reserves of skilled, highly trained workers and economies of scale that access to these large potential markets can provide.

After the Gulf crisis, Arab economic relationships with the world's other major trading blocks will undergo a period of reassessment and will certainly lead to major changes.

IV. OVERVIEW OF INDUSTRIAL COOPERATION BETWEEN THE ARAB REGION AND EC/OECD COUNTRIES

The Arab countries form an extremely important market for EC/OECD exporters. In 1987, the year under study, total Arab imports from these countries amounted to more than US $ 61 billion, more than half of which came from the 12 member states of the European Community (EC) alone.

While much attention has been focused in recent years on the Arab World's dependency on OECD and other exporters for the import of foodstuff, by far the greatest dependence lies in the field of manufactured goods and industry related services (IRS). The latter has become so important in the global economy in general and the OECD countries in particular that it is not possible anymore to engage in industrial development without considering the impact of IRS imports and the need to develop the local capabilities of the Arab region in this field.

A. Arab Manufactured Imports from OECD Countries

Arab dependence on the OECD countries for supplies of manufactured goods far outstrips their exports in this sector (Table 1). In 1987, Arab manufactured imports from the OECD totalled slightly less than $ 42 billion, a figure that is almost ten times as high as the value of Arab manufactured exports. Moreover, because existing trade data makes it difficult to disaggregate certain categories of manufactured imports, particularly fertilizers, other chemicals and processed foods which are excluded from the total, the actual sum may be considerably higher (Table 2). The EC countries were the largest suppliers, providing $ 25.4 billion worth of manufactures, about 60.5 percent of the total. Japan supplied goods worth $ 6.1 billion, 14.6 percent of the total, followed by the USA with $ 4.5 billion, or 10.6 percent, with the remainder, 14.3 percent, coming from the rest of the OECD states.

Of the three main regional groups, the GCC countries were the largest importers of OECD manufacturers, with a figure of $ 21.3 billion, more than the ACC and UMA countries combined, or just over half of the total figure for all 20 Arab countries. Saudi Arabia led the list of GCC importers, buying some $ 12.6 billion worth of manufactured goods, a figure that represents just under 60 percent of the GCC total (Table 3). However, both the UAE and Kuwait are also big importers of manufactured goods from the OECD, with figures of $ 3.8 billion and $ 2.7 billion respectively. Half of the GCC imports were provided by the EC countries, with about 21 percent coming from Japan and 15 per cent from the USA.

Manufactured imports from the OECD countries by the Maghreb states amounted to about $ 9.8 billion in 1987, about 23 percent of total Arab manufactured imports. Algeria led the list in this group, with imports amounting to some $ 3.5 billion, slightly more than one-third of the total. Libya imported goods worth $ 2.3 billion, followed by Morocco with $ 2.2 billion and Tunisia with $ 1.6 billion. In contrast to the GCC, which has a wider geographical spread of suppliers among the OECD countries, the UMA group is almost totally dependent on the EC for its imports of manufactured goods; in 1987, EC exports of manufactured goods formed almost 86 percent of the UMA total.

ACC manufactured imports from the OECD totalled just under $ 8.7 billion in 1987, about 14.1 percent of the total for all Arab countries. Of the $ 8.7 billion, the EC provided 57.7 percent, the USA 11.7 percent and Japan 10.2 percent. Egypt alone accounted for almost half of the total manufactures imported by the ACC states, with $ 4.3 billion, followed by Iraq with $ 2.6 billion, or 30.1 percent.

Arab dependence on the OECD countries for the capital goods needed to develop their own industries is demonstrated by the high proportion *which* these represented in total Arab manufactured imports; in 1987 imports of machinery and transport equipment amounted to just under $ 25 billion, almost 60 percent of total Arab manufactured imports from the OECD countries (Table 2) or 25 times as much as their combined capital goods exports. The EC countries provided more than half, 58.6 percent, of total Arab capital goods imports, followed by Japan with 20 percent and the USA with 13.8 per cent.

The GCC states accounted for more than half of total Arab capital goods imports from the OECD, with a total figure of just under $ 13 billion. Saudi Arabia alone imported capital goods in 1987 worth $7.7 billion, more than half the GCC total, or almost one-third the figure for all 21 Arab States. Another $3.8 billion was imported by the UAE and Kuwait together, both of which represent important markets for OECD exporters of machinery and transport equipment.

Within the ACC, both Egypt and Iraq are important markets for capital goods exports, taking $2.9 billion and $1.4 billion respectively out of an ACC total of $5.4 billion (21.6 percent of total Arab capital exports). The Maghreb states imported capital goods totalling just under $5.5 billion in 1987, slightly more than the ACC states. Algeria led the list of importers with $2.2 billion, followed by Libya with $1.3 billion and Morocco with $1.1 billion. As is the case with total manufactured imports, the EC is by far the dominant supplier of capital goods to the Maghreb states, in contrast to the GCC where they accounted for only half of all capital goods imports.

Table 1

Arab Regions:
Share of Manufactured Goods in Total OECD Imports, 1987

Region	Total Imports ($ millions)	Manufactured/Goods ($ millions)	Share
UMA	20,639.7	2,190.6	10.6
ACC	10,265.9	735.2	7.2
GCC	37,301.7	1,196.6	3.2

Table 2

Arab Countries:
Share of Manufactured Goods in Total Imports, 1987

(US$ Millions)

From	OECD	USA	Japan	EC
Total Imports	61,359.5	8,213.0	7,749.9	36,917.5
Manufactured Goods* of which	41,897.9	4,456.6	6,110.2	25,357.9
UMA	9,762.4	153.1	547.5	8,387.5
ACC	8,667.0	1,018.2	886.6	5,001.2
GCC	21,311.2	3,109.2	4,412.0	10,687.0
% of Total	68.3	54.3	78.8	68.7
Capital Goods**	24,917.6	3,432.1	4,995.1	14,612.8
% of Total	40.6	41.8	64.5	39.6

* SITC Categories 6,7 and 8 only; certain chemicals and processed foods are therefore excluded from these totals.

** Machinery and Transport Equipment.

While the Arab region is dependent on the OECD countries, particularly the USA, for vital imports of food and raw materials, manufactured imports still account for a large proportion of their total imports from these countries, i.e. 68.3 percent or more than two-thirds of total imports amounting to $61.4 billion. Again, Arab dependence on the OECD countries for capital goods is demonstrated by the fact that these alone accounted for more than 40 percent of total imports from the OECD, with an even higher figure, 64.5 percent, in the case of Japan.

Table 3

Arab Countries: Manufactured Imports, 1987

(US$ millions)

Country	OECD	USA	Japan	EC
Machinery and Transport Equipment				
IJMA:				
Morocco	1,136.7	46.6	35.2	1,005.2
Algeria	2,241.4	48.7	134.5	1,942.2
Tunisia	664.5	17.2	8.0	602.5
Libya	1,316.8	-	220.7	1,012.7
Mauritania	115.7	3.2	2.6	106.8
Total	5,475.1	115.7	401.0	4,669.4
ACC:				
Egypt	2,863.0	503.3	363.0	1,737.7
Jordan	812.0	146.9	84.9	503.0
Iraq	1,440.1	101.9	218.6	847.0
North Yemen	193.0	58.0	29.4	99.1
South Yemen	74.9	3.3	20.6	47.7
Total	5,383.0	813.4	716.5	3,234.5

continued table...3

Country	OECD	USA	Japan	EC
Machinery and Transport Equipment				
GCC:				
Saudi Arabia	**7,689.6**	**1,585.6**	**2,095.2**	**3,518.6**
Kuwait	**1,636.3**	**285.3**	**611.1**	**596.6**
Bahrain	**322.2**	**57.9**	**74.7**	**162.2**
UAE	**2,160.5**	**252.9**	**606.0**	**1,213.9**
Qatar	**368.0**	**43.5**	**117.2**	**194.8**
Oman	**731.9**	**139.7**	**184.6**	**383.8**
Total	**12,908.5**	**2,364.9**	**3,688.8**	**6,069.9**
Other:				
Somalia	**123.9**	**6.2**	**9.3**	**106.8**
Sudan	**302.0**	**48.9**	**61.2**	**177.0**
Syria	**445.2**	**65.2**	**87.2**	**208.2**
Lebanon	**279.9**	**17.8**	**31.1**	**147.0**
Other	**-**	**-**	**-**	**-**
Arab Total	**24,917.6**	**3,432.1**	**4,995.1**	**14,612.8**
Manufactured Goods, classified by material				
UMA:				
Morocco	**816.4**	**10.3**	**7.6**	**747.2**
Algeria	**967.0**	**11.0**	**42.2**	**752.7**
Tunisia	**699.0**	**3.7**	**4.2**	**655.8**
Libya	**633.5**	**-**	**63.9**	**506.5**
Mauritania	**58.9**	**0.6**	**0.8**	**57.1**
Total	**3,174.8**	**25.6**	**118.7**	**2,719.3**

continued table ...3

Country	OECD	USA	Japan	EC
Manufactured Goods, classified by material				
ACC:				
Egypt	**1,055.9**	**106.7**	**11.0**	**672.4**
Jordan	**314.7**	**17.1**	**35.2**	**171.7**
Iraq	**923.6**	**10.6**	**12.0**	**299.5**
North Yemen	**101.8**	**1.3**	**22.7**	**56.5**
South Yemen	**34.6**	**-**	**7.6**	**22.4**
Total	**2,430.6**	**135.7**	**88.50**	**1,222.5**
GCC:				
Saudi Arabia	**2,832.3**	**280.8**	**79.0**	**1,444.2**
Kuwait	**562.3**	**46.3**	**16.0**	**250.7**
Bahrain	**127.0**	**9.3**	**28.8**	**72.6**
UAE	**884.9**	**53.8**	**36.0**	**392.6**
Qatar	**111.1**	**10.3**	**21.6**	**70.9**
Oman	**137.1**	**4.9**	**40.6**	**82.7**
Total	**4,654.7**	**405.4**	**222.0**	**2,313.7**
Other:				
Somalia	**46.0**	**2.8**	**0.4**	**41.5**
Sudan	**81.8**	**2.8**	**11.7**	**54.9**
Syria	**267.6**	**11.0**	**32.4**	**171.8**
Lebanon	**272.0**	**11.8**	**15.1**	**188.1**
Other	**62.4**	**-**	**-**	**-**
Arab Total	**10,989.9**	**595.1**	**488.8**	**6,711.8**

continued table ...3

Country	OECD	USA	Japan	EC
Miscellaneous Manufactured Articles				
UMA:				
Morocco	**228.5**	**5.1**	**4.3**	**210.1**
Algeria	**270.6**	**4.1**	**14.9**	**236.3**
Tunisia	**212.9**	**2.5**	**1.5**	**203.8**
Libya	**386.8**	**0.1**	**6.9**	**335.3**
Mauritania	**13.7**	**-**	**0.2**	**13.3**
Total	**1,112.5**	**11.8**	**27.8**	**998.8**
ACC:				
Egypt	**348.8**	**49.5**	**33.7**	**231.8**
Jordan	**202.5**	**12.6**	**9.6**	**129.6**
Iraq	**246.1**	**3.4**	**32.6**	**139.5**
North Yemen	**41.8**	**3.4**	**3.6**	**31.8**
South Yemen	**14.2**	**0.2**	**2.1**	**11.5**
Total	**853.4**	**69.1**	**81.6**	**544.2**
GCC:				
Saudi Arabia	**2,035.5**	**203.0**	**266.0**	**1,220.5**
Kuwait	**492.2**	**37.8**	**59.6**	**319.2**
Bahrain	**139.2**	**6.7**	**9.8**	**88.2**
UAE	**755.8**	**79.8**	**122.3**	**452.3**
Qatar	**126.5**	**5.7**	**9.7**	**91.6**
Oman	**198.8**	**5.9**	**33.8**	**131.6**
Total	**3,748.0**	**338.9**	**501.2**	**2,303.4**

continued table ...3

Country	OECD	USA	Japan	EC
Miscellaneous Manufactured Articles				
Other:				
Somalia	**21.3**	**2.3**	**0.1**	**18.3**
Sudan	**40.5**	**1.8**	**1.4**	**36.0**
Syria	**65.6**	**1.8**	**9.1**	**45.6**
Lebanon	**149.1**	**3.7**	**5.1**	**87.0**
Other	**-**	**-**	**-**	**-**
Arab Total	**5,990.4**	**429.4**	**626.3**	**4,033.3**

Source: OECD, *Foreign Trade by Commodities,* 1987, Volume I, Paris, 1989. All figures are f.o.b.

Of the three Arab regional groups, the GCC is most dependent on the OECD for manufactured goods, which represented more than three-fourths of their combined imports (Table 4). The ACC was least dependent, with a figure of just under 60 percent, mainly because of lower shares for Egypt and North Yemen (58 and 52 percent respectively), both of which have relatively larger industrial sectors than their fellow ACC member states. In the Maghreb states, the share amounted to more than two-thirds of their total imports from the OECD, or 64.3 percent. This is primarily due to Libya's relatively higher dependence on manufactured goods imports, which represented 68.5 percent of its total imports from the OECD, as compared to Algeria, the largest OECD market in the Maghreb, where manufactured goods accounted for only just over 60 percent of its total imports.

B. The EC Market for Arab Manufactures

With the European Economic Community as the largest market by far for Arab exports of manufactured goods, EC developments will have a major impact on Arab industry in the 1990s, not least as a result of the formation of a Single Market in the EC by 1992. The Arab states, along with other DCs,

Table 4

Arab Regions:
Share of Manufactured Goods in Total OECD Exports, 1987

Region	Total Exports ($ millions)	Manufactured Goods ($ millions)	Share (%)
UMA	15,171.8	9,762.4	64.3
ACC	14,532.6	8,667.0	59.6
GCC	28,237.7	1,196.6	3.2

Source : see Table 6.

are concerned that the implementation of European integration, along with the formation of a single trading block incorporating the United States and Canada, could have an adverse effect on their access to key markets within the OECD and could divert substantial resource flows away from the DCs towards the newly emergent democracies of Eastern Europe.

To date, EC officials have emphasized their belief that the formation of a Single Market will lead to greater growth in the community as a whole and therefore, in the long term, to a greater demand for imports from outside the EC. DC exporters, they have maintained, will benefit from increased economies of scale and the establishment of uniform standards throughout the, EC, thereby reducing the effect of nontariff barriers to imports from developing countries. Such gains, they add, would offset any trade diversion effects caused by the creation of the Single Market.

While definitive data on the impact of European integration is still lacking, a recent study by three academics from the UK's Loughborough University suggests that Arab exporters of non-oil products to the EC could suffer a 9.5 percent fall in the value of their trade by 1992, as compared to 1987, as a result of demand elasticities and other trade diversion effects. Countries which export more manufactured goods than crude oil or raw materials would experience the sharpest falls, according to the study, which assumes a 1.00 to 1.50 income elasticity for non-fuel Arab exports and EC GDP growth of from 3.3 to 5.8 percent during the completion period.

Table 5

Predicted Decline in Arab Manufactured Exports to the EC As a Result of the Completion of EC Integration in 1992*

(ECU millions)

Country	Manufactured Goods	Machinery and Transport	Misc. Manufact. Goods	Total Decline in Exports	Porcent Fall in Manufact.
UMA:					
Morocco	29,657	11,606	57,962	177,942	55.7
Algeria	6,779	4,144	1,082	213,745	5.6
Tunisia	20,042	14,722	57,416	134,259	68.7
Libya	-	1,233	-	241,701	0.5
ACC:					
Egypt	48,521	5,327	2,923	147,560	38.5
Jordan	-	7,047	548	12,404	61.2
Iraq	-	5,622	215	174,830	0.3
North Yemen		-	-	131	-
South Yemen				310	
GCC:					
Saudi Arabia	-	28,062	4,257	284,452	11.4
Kuwait	-	5,169	734	115,655	5.1
Bahrain	3,343	2,973	518	9,806	69.7
VAR	3,229	9,190	3,645	69,440	23.1
Qatar	-	1,209	-	12,319	9.8
Oman		5,231	1,593	13,853	49.3
Other:					
Syria	-	1,293	-	30,614	4.2
Lebanon	-	806	1,975	8,682	32.0
Sudan		-	-	17,143	-
Arab Total	286,059	119,201	274,388	268,722	-

Using NACE (digit 3) commodity classifications, rather than SITC, as above.

Source: Chris Milner, John Presley, Tony Westaway, "The Impact of the Completing of the European Internal Market on Middle East Exports", unpublished paper presented to the British Society for Middle Eastern Studies (BRISMES), University of Durham, July, 1989, Table 6; UNIDO calculations.

The Maghreb countries would be particularly adversely affected, with falls of 68.7 percent and 55.7 percent for Tunisia and Morocco respectively (Table 5). However, both Algeria and Libya, which have a lower share of manufactured goods in their total exports as a result of their crude oil and natural gas exports, would be relatively unaffected.

Both Jordan and Egypt can also expect a serious decline in their manufactured exports to the EC, with these accounting for 61.2 and 38.5 percent of their total export declines respectively. In the GCC countries, Bahrain would be the worst affected, with a fall of 69.7 percent, followed by Oman with a figure of 49.3 percent. Elsewhere, Lebanon would also experience a severe negative impact, with a fall of 32 percent for its manufactured exports.

While the authors stress that presently unknown factors, such as the rise in income levels in the EC after 1992, could push up demand sufficiently to counter some of the greatest decline as a result of the completion of European integration, they note, significantly, that such positive gains could take several years to materialize. As a result, if their data is accepted, a severe fall in manufactured exports to the EC by 1992 can be expected by many Arab countries, with a total for the Arab states of around 30 percent, a figure that is far higher than the negative impact anticipated for their non-oil exports as a whole.

C. Industry Related Services

The establishment and expansion of manufacturing in the Arab countries has entailed a dramatic rise in the demand for related services, especially in the fields of construction, engineering and design, insurance and freight, operations and maintenance (0 & M), consultancy, software and data processing. While figures on the import of industry-related services are often difficult to obtain, and distinctions between those concerned with manufacturing cannot easily be distinguished from others such as tourism or travel, statistics compiled annually by the United Nations Conference on Trade and Development show that service imports, excluding interest payments and income from direct investments, are costing more than $ 35.8 billion a year (Table 7). As a percentage of GDP, these amounted to 10.6 percent, a figure that is remarkably high due to the lack of indigenous industry-related services within the Arab countries themselves. This dependency on service imports contrasts markedly with the industrial

OECD countries, notably the United States (1.6 percent), Japan (2.2 percent) and the EC (4.3 percent), where the services sector is highly developed.

Arab dependence on the leading industrial countries for vital industry-related services is even more pronounced in Gulf countries due to the relatively recent development of modern education, the need to import highly educated expatriate manpower skilled in management and technology as well as skilled and unskilled labor, and the cost of service imports required to maintain and expand hydrocarbon exports, and to establish a manufacturing sector. The UNCTAD figures show that Saudi Arabia's service imports in 1987 alone totalled more than $ 19.3 billion, or 16.3 percent of total GDP. An even higher ratio was recorded for Kuwait, 19.4 percent. Bahrain, which has a larger indigenous services sector and a relatively larger skilled labor force, still had a ratio of 11.9 percent, while Oman, which started to industrialize later than its GCC partners, recorded a figure of 9.4 percent. Moreover, it is important to remember that the year in question, 1987, was one in which, due to the sudden drop in oil export revenues, service imports declined relatively sharply in the Gulf countries. An increase in these imports can therefore be expected in the GCC region as spending on industry and on infrastructural expansion and maintenance projects returns to more normal levels in the 1990s.

Elsewhere, the ratios are particularly high for two ACC states - Jordan, with 26 percent and South Yemen, with 19.3 percent. (Figures for Iraq are only available for 1975 and could well have increased significantly since the ending of the Iran-Iraq War in August, 1988, although its lack of foreign exchange to finance both commodity and service imports will have operated as a limiting factor in this regard.) In the case of Jordan, the high ratio would appear to reflect the loss of its skilled workers and professionals to jobs in the Gulf and elsewhere, as well as high indigenous demand for service imports despite a relatively skilled labor force, while for South Yemen the import of oil - and mineral - related services may be responsible, especially given the extensive government emphasis placed on oil and gas exploration during the period under discussion.

Table 6

Arab Countries Trade in Services*, 1987

(US$ Millions)

Country	Imports of Services	GDP	Share of MVA	Imports of Services/GDP(%)
UMA:				
Morocco	1,156.3	18,876.9	24.6	6.3
Algeria	1,456.0	61,234.4	12.8	2.4
Tunisia	605.2	9,604.8	15.1	6.3
Libya**	987.8	23,132.6	5.7	4.3
Mauritania**	201.7	846.4	6.1	23.8
ACC:				
Egypt	2,742.6	29,337.3	17.0	9.3
Jordan	1,296.6	4,978.3	12.7	26.0
Iraq ***	1,141.3	13,852.9	6.1	8.2
North Yemen	271.1	4,212.2	12.4	6.4
South Yemen	202.3	1,047.8	11.3	19.3
GCC:				
Saudi Arabia	19,314.6	73,463.2	8.4	16.3
Kuwait	4,295.6	22,089.3	10.6	19.4
Bharain	416.0	3,495.0	12.4	11.9
UAE	n.a.	23,798.5	9.2	-
Qatar	n.a.	5,445.9	9.7	-
Oman**	700.4	7,263.3	3.7	9.6
Other:	-			
Somalia**	101.8	1,681.5	5.5	6.1
Sudan	229.0	5,591.8	7.8	4.1
Syria**	651.1	25,462.9	15.4	2.6
Lebanon	n.a.	2,688.3	0	-
Djibouti	n.a.	338.8	9.3	-
Arab Total .	35,769.4	338,442.1	11.3	10.6
USA	72,153.0	4,497,200.0	-	1.6
Japan	52,835.0	2,373,800.0	-	2.2
EC	236,635.0	5,456,000.0	-	4.3

*** Excluding Interest Payments and Direct Investment Income.**

**** 1986 *** 1975**

Sources: UNCTAD, Handbook of International Trade and Development Statistics 1988, UN, New York, 1989 ; Arab Fund for Economic and Social Development, Kuwait, April and May, 1990 ; IMF, International Financial Statistics, March, 1990.

Only in the Maghreb states, Syria and Sudan are relatively low rates recorded, although Mauritania which imports services related to its mining sector is an exception. In some of these countries, indigenous services are more developed than in other Arab countries, partly as a result of government incentives to the private sector and partly as a result of the relatively higher degree of education and/or the experience which its labor force has obtained working abroad, especially in the EC. In other cases, such as Algeria, the relatively low rate reflects the government's discouragement of service imports in favor of concentrating on capital goods imports. As a result, the lack of industry-related services, especially because of the low availability of local services to substitute for imports, may hinder manufacturing growth and explain the relative decline in the country's MVA during the second half of the 1980s. In the case of Sudan, however, the low rate may more generally reflect the country's difficult financial situation, which precludes costly imports, and/or the relatively smaller share which industry takes in its overall GDP.

Of even more concern, however, is the relationship between the import of services, especially from the OECD countries, and those of capital goods imports. While the industrialized countries of North America, Europe or the Far East can draw on their own construction, engineering, design, marketing and financial sectors, Arab manufacturers must often import these services along with those of machinery and transport equipment if they are to maintain their competitive edge and make the most of their low supplies of either labor and/or low-cost energy and hydrocarbon feedstocks. Moreover, access to capital goods is often specifically tied to the import of related services from the supplying country, either for financial reasons as in the case of suppliers' credits or because the capital goods are provided as part of a turnkey contract that links the supply of these goods to the import by the purchasing country of the related services.

As Table 7 indicates, service imports for the 17 Arab countries for which data is available average almost one and one-half times more, or 144 percent, of the entire cost of capital goods imports. In both Saudi Arabia and Kuwait, the ratios are extremely high, at 251 and 263 percent respectively, i.e. almost three times capital goods imports, with a similar ratio recorded for South Yemen. Figures above the Arab average were also recorded for Jordan, Syria and Mauritania, despite their shortages of foreign exchange. Significantly lower than average figures were again reported in the other four Maghreb states, Egypt, Bahrain, Oman, Somalia and Sudan.

While many Arab countries have developed their own domestic building industries, especially for housing, light commercial and infrastructural projects, the import of other services, notably in engineering, consultancy and design, is still high due to the relative lack of development of these services locally. The development of industry, in this sense, must be seen as an integrated activity in which a specific industrial plant must be operated and maintained, as a recent study points out, in an industrial environment that links the plant to the national scientific and technological infrastructure, local industry-related services, equipment fabrication and construction capabilities.

In the case of engineering and consultancy services, for example, this "umbilical cord" extends well beyond project generation and the demonstration of the feasibility of an economic project to the life of the investment, often for 20 years or more. Consultancy services are required after start-up to operate and maintain the plant, manage it efficiently, optimize output, improve the product, extend and update existing facilities as required and generate new investment if a process of self-sustaining industrial development is to be ensured. Failure to develop these services locally adds not only substantial sums to a country's import bill but can actually increase dependency on foreign supplying countries. Policies that encourage industrialization without taking into consideration the need to develop the proper local environment will therefore simply add to this dependency rather than reduce it. Countries which either have not learned the required industry-related services, or do not develop them locally, will suffer a decline in both manufacturing output and competitiveness both regionally and internationally.

D. EC Policies

In contrast to Eastern Europe, the Arab World constitutes a market for the EC that is both larger in terms of population and which has greater disposable income. In the GCC countries, per capita income approaches that of Western Europe and payment for goods is made in hard currencies. Moreover, the population of the Arab World, which presently amounts to some 202 million people, is expected to reach 285 million by the year 2000, a figure that would make it more than double the size of Eastern Europe and equal to that of the United States. Combined with the neighboring Muslim countries of Iran, Pakistan and Turkey, the Arab market already consists of 404 million people, a figure that is expected to rise to 577 million by the year 2000.

Table 7

Arab Countries:
Imports of Services/Capital Goods Imports, 1987

(US$ Millions)

Country	Imports of Services*	Capital Goods Imports	% Share of Imports of Services/Capital Goods Imports
UMA:			
Morocco	1,156.3	1,136.7	101.2
Algeria	1,456.0	2,241.4	65.0
Tunisia	605.2	664.5	91.1
Libya	987.8	1,316.8	79.2
Mauritania	201.7	115.7	174.3
ACC:			
Egypt	2,742.6	2,863.0	99.8
Jordan	1,296.6	812.0	160.0
Iraq	1,141.3	1,440.1	79.3
North Yemen	271.1	193.0	140.5
South Yemen	202.3	74.9	270.1
GCC:			
Saudi Arabia	19,314.6	7,689.6	251.2
Kuwait	4,295.6	1,636.3	262.5
Bahrain	416.0	322.2	129.1
UAE	n.a.	2,160.5	-
Qatar	n.a.	368.0	-
Oman	700.4	731.9	95.7
Other:			
Somalia	101.8	123.9	82.2
Sudan	229.0	302.0	79.8
Syria	651.1	445.2	146.2
Lebanon	n.a.	279.9	-
Other	n.a.	-	-
Arab Total	35,769.4	24,917.6	143.6

* See the notes on applicable years for service imports as in Table 6 above

Source: UNCTAD, Handbook of International Trade and Development Statistics 1988, U.N., New York, 1989; Table 5 above.

These projections indicate the huge potential which exists for the development of local manufacturing in Arab countries aimed at import substitution and exports, where the region's comparative advantage due to low-cost fuel and energy and/or skilled but inexpensive labor constitutes largely untapped potential. The extremely young profile of the Arab population, particularly in countries such as Algeria, Egypt and the GCC, also provides a significant market for household and consumer goods which could be supplied by indigenous light industrial plants. Export of know-how to build other plants producing cars, trucks, buses, vans and heavier goods for an expanding regional market will also create new opportunities for cooperation between EC, OECD and Arab countries, particularly as disposable income in Arab countries rises in line with the expected increase in oil and gas revenues in the 1990s. Development of these local industries, whether by the private or public sector, will also help to considerably reduce the financial drain caused by the high import bill for manufactured goods and industry related services and will further add to indigenous purchasing power.

Although the Arab countries imported almost US $40 billion worth of goods from the EC in 1987 alone, including US $25 billion in manufactured goods, and the Arab World forms its most important external market, the EC at present lacks a coherent policy to help the Arab states to develop as potential partners in economic growth.

Projections of a fall of 10 percent or more in Arab manufactured exports to the Community as a result of the creation of a Single Market could also create additional strains in relationships between the EC and the Arab states, particularly in the Maghreb and other Arab Mediterranean countries. While the EC may provide additional sums to help develop employment opportunities in the Maghreb to prevent a substantial rise in Arab immigration to the EC, this would be insufficient to counter the massive outward flow of funds already occurring as a result of interest rate and the high level of imports.

It is therefore remarkable that the EC has, so far, developed no coherent long-term development project for its immediate neighbors, i.e., its own "South". While it played a major role in the .establishment of the London-based European Bank for Reconstruction and Development (ERBD) in 1991 with regard to aid and investment for Eastern and Central Europe, no such proposal has been launched for the Mediterranean countries of the

Maghreb and Levant despite their importance in EC trade and in its wider financial, commercial and political relationships. This stands in marked contrast to the situation in North America, where the United States has signed free trade pacts and reformed its trade and investment policies with both Canada and Latin America, and in Japan, which has a 20-year program to promote development in South Korea and in the other dynamic economies of Southeast Asia.

Recent initiatives suggest that EC countries are considering new ways of cooperation with the Arab Mashreq and Maghreb countries.

The EC's plans to negotiate a free trade pact with the Gulf states may be contingent on these states eliminating intra-GCC customs barriers. However, EC's promises to open up its market to GCC exports of petroleum products and petrochemicals will continue to cause concern in Arab countries if other Arab exports remain subject to excessive tariffs and protectionist policies.

Another subject of concern raised by the southern EC countries is how to avoid the process of market integration in Europe becoming a factor for widening the gap with other regions (particularly the "East" and the "South" of Europe). In this connection, Italy has proposed that 1 percent of the GNP of the 12 EEC members be devoted to development cooperation of which 0.25 percent would be allowed to Central-Eastern Europe and 0.25 percent to the Mediterranean area. Furthermore, Italy has stressed the importance of launching activities aimed at promoting integration within and among regional areas (South-South and North-South cooperation schemes).

IV. THE ROLE OF INTERNATIONAL ORGANIZATIONS

Multinational organizations such as UNIDO, which are seen by both the Arab World and EC/OECD governments to be impartial, have a vital role to play in fostering industrial cooperation between the two partners. Given the current lack of information in Arab countries on marketing and possible joint venture arrangements that can assure access to markets in industrial countries, UN agencies already fulfill a vital function in their efforts to publicize such information.

Regarding the topics discussed in this seminar, UNIDO has recently completed a study on manufacturing trade and investments between Arab and EC/OECD countries which will be published before the end of this year.

UNIDO is currently engaged in a project with the Arab Maghreb Union (UMA) to study measures to promote industrial cooperation by improving sectoral complementarity within the region. It was also requested to assist the regional development of engineering industries, electronics and informatics, textiles and leather, pharmaceutical industries and others involving cold storage and food production.

UNIDO has already set up a network of sub-contractors within the UMA and Egypt, and discussions have been held on developing similar networks in Gulf countries. Proposals have been developed to establish a regional information center and computerized data bank on existing industry within the Maghreb and GCC countries. Other programs are analyzing measures to promote industrial cooperation both within and between the UMA and the GCC as well as with the EC and other OECD countries. Similar activities have been undertaken by UNIDO in the Levantine states; while in the Gulf area, the Organization has recently completed a major study aimed at promoting the development of small- and medium-sized industries.

In 1991 following the ending of the Gulf War, UNIDO is actively involved in the promotion of industrial cooperation and investment between Saudi Arabia and Egypt. UNIDO's pioneering experience in fostering what are expected to be important new financial and economic links between the Gulf states and their Arab allies could be of significant benefit as policy planners and decision makers in GCC states undertake new measures aimed at fostering links between populous Arab countries and both the public and private sectors in the GCC.

Regarding the important subject of industry related services, UNIDO is initiating projects to review the current state of local capabilities of industrial consulting and engineering design services in Maghreb and GCC countries and assist in their development. A workshop on industry related services in the Arab region is planned to be held in Cairo early in 1992.

As the Arab states and their private sector companies become more aware of the need for assistance in all areas of manufacturing, the creation of national and regional institutions aimed at promoting industrial production should create considerable scope for further assistance from international agencies, particularly UNIDO, in industrial development. The provision of skilled professionals, experienced in international markets, industrial policies and operations, to train local cadres is being actively pursued in many of the current technical assistance programs for the region.

UNIDO could also play a vital role in the establishment of new Arab agencies, such as the Arab Trade Financing Program and the proposed Arab Marketing Company, aimed to promote manufacturing exports, as well as in the dissemination of technical know-how and statistics gathering. Finally, given the almost total lack of detailed empirical information on the possibility of downstream linkages within national industrial sectors and between Arab countries, an international agency that is not linked to one or the other Arab government can offer a vitally important, and impartial, perspective that is both sympathetic to local needs yet aware of international opportunities and constraints.

COMMENTS Jamal Eddine Tebbaa'

Dr. Mahfoud Bouhacen's paper is interesting on more than one level.

Firstly, it enlightens us on the new strategy for international cooperation which UNIDO intends to lead and which seems to be based on, apart from such usual areas as potable water, social infrastructures, mineral industries, etc., the search for a relative regional complementarity in the Arab World.

Secondly, this approach seems pertinent because it starts from new geopolitical data, such as, changes in the world economy, tendency for the progressive regionalization of trade and financial flows, the Gulf crisis, etc.

Thirdly, far from falling into a self-satisfied analysis of the actions undertaken, Dr. Bouhacen's paper seems very cautious because of the concrete difficulties in the achievement of certain projects.

This paper also gives rise to the following questions:

1. To approach the analysis between the EC and the OECD on the one hand and the Arab World on the other, as an economic and sociocultural entity implies the economic homogeneity of the Arab World. This is hardly the case; the situations of Arab countries are sometimes diametrically opposed (for example, some are heavily indebted, while others seem to show a large surplus).

Wouldn't it be more judicious to envisage the analysis of those relations taking into account regional situations, particularly regional sociopolitical stakes?

2. The Europe of 1992 must not be perceived by developing countries and by Arab countries in particular as a stage marking the relative

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closing of the European market for those countries. This would be a serious strategic mistake.

The Single Act combined with the changes that have taken place in Eastern European countries indicates the end of a historical phase with all its geopolitical and georelational characteristics, namely, the end of the post-colonization phase.

The privileged relations that some European powers tried to maintain with their former colonies will fade in light of the benefits of stronger relations with former socialist countries.

This reality should encourage Arab countries to favor the development of regional relations with one another in order to build viable, competitive and credible socioeconomic groupings.

3. Certainly, we cannot but share the laudable concern of the author in urging the setting up of complementary economic policies between Arab countries. However, efforts must not be made solely on complementary industrial projects, but also on the administrative, financial and customs organizations capable of promoting the free circulation of people and trade and collaboration between the firms of the countries concerned.

4. If it is judicious to develop the projects favoring socioeconomic complementarity, it is equally necessary that UNIDO should give the technological information it deserves. It is unfortunate that very often, in our countries, we think of material investments and not of the immaterial investments which nevertheless represent the key condition for success.

5. Today, more than ever, regional groupings cannot actually impose themselves except by setting up a real strategy of technopoles.

The creation of regional technopoles (Maghreb, for example) would allow the development of positive synergies at the levels of applied research, finance, economic power and the solidarity of the member states of the regional grouping.

6. The new geopolitical data and the return to a kind of moderate liberalism must urge the firms of Arab countries to be more enterprising by the development of authentic modern management.

Such firms today are among the main actors in the effort for socioeconomic integration.

These are some reflections raised by reading the paper of Dr. Bouhacan whose main ideas we share.

7

EEC-MAGHREB RELATIONS

Abderrazak Attia*

The evolution of the relations of Maghreb countries with the European Economic Community has gone through several stages, which we will consider as reference marks in this paper in order to evaluate the progress achieved in the field of Euro-Maghrebian cooperation and the future prospects of these relations.

These stages are the following:

1. Association Agreements of 1969,
2. Cooperation Agreements of 1976,
3. The Single European Market,
4. Changes in Europe and the Maghreb.

I. THE ASSOCIATION AGREEMENTS OF 1969

Morocco and Tunisia started exploratory discussions in 1963 to negotiate Association Agreements with the Community, but Algeria, which had first obtained its independence, did not follow the same policy for political and economic reasons.

The "Association Agreements", concluded in 1969, were characterized by their similarity, since they had the same legal framework (Article 238 of the Treaty of Rome); they covered only trade aspects and they were based on the principle of the reciprocity of concessions.

This first contractual relationship between the EEC and each of these two Maghreb countries aimed at establishing a free trade area. In fact, it was marked by a deterioration of trade relations between each of these two countries and the EEC, because it was very soon confronted with the organization of a

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wine products market set up within the framework of the Common Agricultural Policy (CAP), especially, regarding the abolition of the blending of the Community's wine products with those from the Maghreb. The implementation of this measure severely affected Maghreb exports of this product which originated from crops planted in Maghreb countries. In this regard, it should be noted that agriculture in Maghreb countries was guided by speculations which were often meant to meet the traditional needs of the EEC countries for products such as citrus fruit, olive oil, etc.

On the whole, this first contractual relationship with the EEC was marked by disturbances which affected the production and marketing of agricultural products of the Maghreb countries coupled with negative consequences for employment in the agricultural sector; that is to say that from the start this situation was bound to be reconsidered.

II. THE COOPERATION AGREEMENTS OF 1976

The second stage corresponded to a certain awareness on the part of member countries of the community of the necessity for developing a Mediterranean policy to be applied to all Mediterranean countries (Maghreb and Mashreq).

This new Mediterranean policy of the EEC decided by the Paris Summit of 1972 included in the chapter devoted to Euro-Maghrab relations economic, financial, technical cooperation and labor issues and concluded new agreements.

The implementation of this policy gave birth to Cooperation Agreements negotiated and concluded from 1972 to 1976 between the EEC and each of the three Maghreb countries,
Algeria having by then also decided to have contractual relations with the Community.

Given their global nature, their undetermined duration and the abolition of reciprocity in the commercial field, the 1976 Agreements were meant to provide a privileged framework likely to contribute efficiently to the economic and social development of the Maghreb countries.

From this point of view, the results obtained within the framework of the implementation of these agreements did not meet the expectations of the Maghreb countries at commercial, financial and social levels.

While it may be true that the Maghreb countries have not adequately used the potentialities offered by these agreements owing to various reasons relating to economic policy and administrative organization, the Community, for its part, has neither adequately stimulated, favored nor impelled this cooperation.

With regard to finance, the Maghreb countries have since 1978 each concluded four financial protocols. The most recent protocol covers the period from 1992 to 1996. This somewhat modest contribution of the EEC was positively used in the sectors of agriculture, infrastructure, training, environment, services and small and medium enterprises. Despite the qualitative changes which were made within the scope of the last protocols, the effects of financial cooperation are still limited in comparison with the structural reforms started by the Maghreb countries and the funds which they require.

At the commercial level, two factors had essentially a negative impact on Euro-Maghreb trade relations:

1. The successive extensions of the Community; and

2. The implementation of the safeguard clause in the textiles field.

While agreements provided for revision clauses according to specific timetables in order to examine trade evolution and progressively introduce the changes necessary to their improvement and development, the Community refused any in-depth reconsideration for about ten years, giving as a pretext, membership negotiation which were carried out at that time with, first, Greece and then Spain and Portugal.

In the meantime and under the effect of the setting up and the strengthening of the mechanisms of the Common Agricultural Policy (the increase of reference prices out of proportion to the reality of market prices), the exports of agricultural products of Maghreb countries to the EEC were experiencing such an important decrease that when the question of adopting the

Maghreb-EEC Cooperation Agreement arose following the membership of Spain and Portugal in 1986, the Maghreb countries had to face reference periods (on which the Community based the determination of the new quotas), during which the exports of the agricultural products of the Maghreb countries to the EEC were at their lowest.

As a result, tariff quotas and other reference quantities were inevitably and accordingly fixed to relatively low levels.

Even the adaptation Agreements concluded in 1987 within the post-membership negotiations held between the EEC and the Maghreb countries focused essentially on the objective of keeping the traditional trade flows and not on trade expansion.

However, the EEC did try not to treat unfavorably Maghreb agricultural exports in comparison with those of Spain during the transition period by accepting the principle of adjusting the mechanisms of the Common Agricultural Policy for citrus fruits and other products, but this was coupled with such conditions that its implementation became hypothetical and inoperative for Maghreb countries.

The second factor which played a negative role was the implementation of the safeguard clause against Maghreb exports of textiles.

While the 1976 Agreements provided for the free access without quantitative and tariff restrictions of the industrial products of Maghreb countries to the Common Market, the EEC resorted in 1977 to the implementation of the safeguard clause by imposing quantitative limitations on textiles imports from Maghreb countries.

In addition to the difficulties to which this gave rise in the textiles sectors in Maghreb countries entailing the closing of factories and the unemployment of several hundreds of workers, such a measure greatly affected industrial initiative and dissuaded European private operators from investing in Maghreb countries: in our opinion, these are the major reasons which prevented industrial cooperation from efficiently and adequately playing the role assigned to it.

I have first addressed these two factors whose impact was very important on the evolution of Euro-Maghreb trade. However, it should be noted that this trade improved significantly both at the quantitative level and at that of trade structure, where the share of manufactured products increased from ECU 473 million in 1977 to ECU 2,393 million in 1988 for the three countries; this increase being attributed largely to Morocco and Tunisia.

Some observers today assume that textiles arrangements have somehow enabled Maghreb industries to succeed in the European Market, while others think that these industries would have been better able to develop themselves.

This leads us to the third stage of Euro-Maghreb relations, that of the establishment of the Single European Market and of the challenges to Maghreb economies.

III. THE SINGLE EUROPEAN MARKET

The problem of the Single European Market as set out in the white book results from a delay by the EEC in providing itself with a common external frontier ensuring the free and effective movement of individuals, goods, services and capital.

In this context, the so-called 1992 objective is perceived as a challenge to be met by the Community in order to achieve its economic integration on the basis of free competition, economic and commercial competitiveness and increased productivity. The adoption by the EEC of 279 directives is underway to complete this enterprise. Strategically, it aims at increasing the European economy to the level of Japanese and American competitiveness.

The changes observed at all levels within the EEC reflect this new dynamic created by the 1992 effect which has given rise to restructuring, amalgamation and the extension or creation of new establishments complying with the "economic selectivity" law. As a result, this Community in embryo may become either a fortress Community for Maghreb firms unable to adapt themselves to competition or, on the contrary, a more homogeneous and better dimensioned market *which* will favor the reimplementation of trade and industrial strategies, provided that Maghreb firms agree to invest in common manufactured products meeting the market's requirements.

Within this framework, the efforts exerted by the Maghreb economies, which are themselves being adjusted, should essentially favor the mastering of norms and technical controls systems in order to win EEC recognition of Maghreb testing and certification systems and thus guarantee the quality of Maghreb products as being in compliance with the norms required by the new Community regulations.

This represents a wide field of technical and technological cooperation between the Community and Maghreb countries which should be investigated in order to avoid the marginalization of Maghreb economies and to maintain the connection with the EEC for the mutual interest of the two areas.

IV. THE CHANGES IN EUROPE AND THE MAGHREB

The recent Gulf crisis has shown how precarious international relations can be.

It means that there can be no world security without regional security, and, accordingly, security can only be indivisible at the global level. Therefore, the new world order can result only from a new pattern of organization, from economic, political, social and cultural interdependence between the world's regions and peoples.

If the EEC, while completing its economic and political integration, is concerned for its immediate neighborhood made up of the EFTA countries, it should also reconsider the conception of its cooperation with the Maghreb countries on new bases and concepts.

Drawing conclusions from the changes affecting international relations and taking account of the deep sociopolitical transformation experienced by their respective societies, the Arab Maghreb countries decided in February, 1989 to pool their efforts within the framework of a union project, henceforth entitled: The Maghreb Arab Union.

The five AMU countries are endeavoring to define the content and stages of this economic union and adopt a strategy which should lead them to. the achievement of final objective. The recent setting up of AMU structures will speed up the establishment of this new institution.

At the time of its creation, the European Community had commended this regional union and expressed its will to extend its support to this effort of regional amalgamation.

What about the issue of the AMU-EEC relations?

The issue of AMU-EEC relations revolves around several challenges to be met in common and is similar at several levels to the relationship between the EEC and the countries of Eastern Europe. Like Eastern European countries, the Maghreb is involved in a process of political reform aimed at establishing democracy, public freedom, multipartism and market economy. Europe invested itself politically and economically to save Eastern Europe, to make irreversible its process of political democratization and to foster the establishment of market economy. This political will was first reflected by concrete actions at the level of the group of 24 followed by the creation of a European Bank for Reconstruction and Development (EBRD). The first actions aimed at by the group of 24 concerned the following:

1. The EEC Market was opened to exportable products by these countries;
2. Training was given priority; it was deemed absolutely necessary to have real entrepreneurs with full knowledge of market economy mechanism;
3. Food aid was also considered as essential and necessary.

The challenges for the Maghreb countries were the same, but in different degrees because it was also a question of establishing democracy, achieving multipartism, ensuring freedom of opinion and expression and protecting human rights. The Maghreb economies also had to be restructured to make them real market economies able to adapt to the world economy.

Consequently, this means the control of demographic growth, the creation of an adequate number of jobs for young people who account for more than 50% of the AMU population in order to be able at last to stop migration, which is a source of concern for European countries. In addition, one should keep in mind the debt problem which considerably reduces the margin for manoeuvre of Maghreb countries.

What is to be done to reach these objectives without incurring political, economic and social risks, in short, security risks and without reciprocal arrangements?

Such are the challenges which Maghreb and European countries should meet in common within the framework of a global and integrated approach to ensure the collective stability and security of the entire Euro-Mediterranean area.

Aware of the new geopolicy and the new areas which are taking shape in Europe and taking into account the changes occurring in the Maghreb and Europe, Tunisia called upon the Community in April, 1990, in a memorandum submitted to the EEC to proceed to a redefinition of the economic relations between the EEC and Mediterranean countries within the framework of the creation of a Euro-Mediterranean economic area.

AMU-EEC relations should fit into this global vision of a Euro-Mediterranean area as a common geopolitical and strategic base shared by Europe and the Maghreb in which they should work together and endeavor to create a security, stability and coprosperity zone.

For this purpose, a new approach was advocated: codevelopment.

The concept of codevelopment implies that security and development are indissociable elements of a common strategy. Moreover, the established dialogue between the Western Mediterranean countries falls within this approach and should strengthen this process.

The codevelopment strategy should revolve around two stages:

The first stage is the definition of action programs and new financial, technical and institutional instruments. In order of priority, these programs should deal with measures accompanying structural reforms, contribute to easing financial restrictions burdening the economies of Maghreb countries and support their employment, investment, and trade policies in order to give a new impetus to growth and create an environment favorable to economic development. The easing of financial constraints implies, of course, the necessity of settling the debt problems of these countries with EEC members states. Therefore, a new instrument should be initiated to allow the rescheduling and adaptation of these debts with a double objective:

1. The augmentation of resources in local currencies and the utilization of these resources either in projects directly creating employment (e.g. infrastructure projects using manpower to a great extent) or in projects meant to favor and give an impetus to private investment also providing employment opportunities;

2. The reduction of pressure on balances of payments to favor the achievement of import programs necessary to the good working of economic machinery.

Furthermore, Community action cannot achieve economic and social cohesion between Northern and Southern Mediterranean countries without the launching of a new Mediterranean financial institution able to play a key role by carrying out specific programs to support the process of national and subregional development and by achieving the convergence of economic policy between the various parties. Such an institution will enable Maghreb countries to further strengthen their common constructive activities and will develop trade and industrial investment between Europe and the Maghreb.

Still within this first stage, the EEC and Maghreb countries should agree on the framework of an honor charter to preserve in common the rights and dignity of their nationals living in their respective territory. They should endeavor to manage in common all situations relating to the living conditions, security, work, movement and stay of their respective nationals on a nondiscriminatory basis and in compliance with international conventions. This code of good behavior should favor mutual confidence and understanding between their respective communities. This was the meaning of the proposal made by President Ben Ali to the European states.

The second stage of the co-development strategy is the extension of the fundamental freedom of the Single Market related to the free movement of goods, capital, services and individuals to the AMU countries in order to create a Euro-Mediterranean economic area.

Negotiations could then be held to progressively integrate in this area the different components of the Single Market starting by the establishment of a free trade area between the AMU and the EEC to cover the movement of goods. The convertibility of the local currencies of AMU countries supported and assisted by the EEC is also likely to favor the free movement of services and capital.

In conclusion, I think that the European Community should necessarily involve itself politically and economically vis-a-vis Southern Mediterranean countries in order to create alongwith its Southern neighbors an area of stability and general welfare which will be a real safety belt for all.

COMMENTS

Mohammed Bennani*

The problem raised by Mr. Attia is that of the specific relations between the Maghreb countries and the EEC; the author has approached it in two stages. First, from a retrospective point of view and then by means of a prospective approach stressing the future of these relations with the advent of the Single European Market.

I. THE RETROSPECTIVE APPROACH

The author presents a historical account of EEC/Maghreb relations in two stages: one is a reminder of the Association Agreements of 1969, the other concerns those of 1976.

A. The Association Agreements of 1969

Having recalled the discussions of 1963 between Morocco, Tunisia and the EEC in accordance with Article 238 of the Treaty of Rome, the author has pointed out the specificities of the agreement as well as its shortcomings.

The agreement of 1969 was simply a commercial agreement which did not touch upon social aspects and development assistance. However, it did stipulate a reciprocity in concessions on the part of Morocco and Tunisia.

The free trade zone set up by the agreement was protected by the EEC in order to avoid any disturbance.

B. The Agreements of 1976

In 1972, the EEC decided at the Paris Summit to conduct a global Mediterranean policy. The agreements concluded as part of this new global approach encompassed fields that were left out of the 1969 agreement, namely, financial, technical and social cooperation.

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These agreements differ from the previous one by their global character, their indefinite duration and by the lack of reciprocity on the commercial side.

In spite of the substantial modifications made by these agreements to Maghreb/EEC cooperation, they still did not measure up to the expectations of the Maghreb countries. This is because, on the one hand, the Maghreb countries would not have exploited all the potentialities offered by these agreements, and, on the other hand, the Community, on its part, would not have stimulated and promoted the optimum exploitation of the possibilities offered by these agreements.

Moreover, two factors played a negative role: the successive enlargement of the EEC and the use of safeguard clauses notably in the textiles field. Furthermore, during this phase, the revision clause provided for in these agreements did not always work.

EEC/Maghreb relations were marked by the decline of exports due to the application of provisions of the CAP (minimal price, exportation schedule, etc.), especially since the entry of Spain and Portugal into the EEC, and the use of safeguard clauses and quantitative restrictions on manufactured products (textiles in particular).

C. The Adaptation Agreements Signed in 1987

Since its enlargement to the countries of the Iberian Peninsula, the EEC has signed adaptation protocols to the agreements of 1976 in order to maintain the traditional levels of exchange between the Maghreb and the EEC. However, the principle of modelization has not been well applied.

II. THE SINGLE EUROPEAN MARKET

The objective of 1993 is the establishment of the free circulation of people, goods, services and capital. An arsenal of general laws has been implemented to facilitate free competition and competitiveness in economy and trade inside the Single European Market.

To face this new challenge, Maghreb firms must attune themselves to competition and facilitate the rearrangement of industrial strategies. They must invest in common in sophisticated products which will satisfy the requirements of the large Single Market.

Also, to avoid marginalization, the Maghreb economies must facilitate the mastery of technical norms and technical control systems.

I I I . THE CHANGES IN EUROPE AND THE MAGHREB

Having reminded us that there is no world security without regional security because of the economic, political, social and cultural interdependency of all the areas of the world, the author made a plea in favor of a redefinition of the economic relations between the EEC and the Mediterranean countries as part of the creation of a Euro-Mediterranean economic area in which AMU/EEC relations should be included. The codevelopment strategy combining security with development would be at the center of these new relations.

The apprehensions of Maghreb countries at the approach of 1993 are as follows:

1. Fear of community quotas being established inside the EEC;
2. Fear of the harmonization of the norms relating to the different processes of manufacture, protection, etc.
3. Fear of the uncertain future of preferential relations;
4. Finally, fear of the erosion of the financial assistance granted by the EEC.

8

TRADE RELATIONS BETWEEN THE MAGHREB ARAB UNION AND THE ECC

Ahmed Srikah*

I. INTRODUCTION

The end of the 1980s was marked by deep changes which brought about the redeployment of forces at the international level characterized by the world's bipolarization and the questioning of communist dogma and an increase in protectionism in opposition to the very teachings of liberalism.

In the wake of this worldwide metamorphosis, the countries of the Western Mediterranean are also experiencing, though for different reasons, similar movements.

To the north, the Economic Community of 12 European countries is seeking to complete its economic, monetary and political union.

To the south, confronted with the failure of separate developmental policies in the face of both internal and external constraints, Algeria, Libya, Morocco, Mauritania and Tunisia decided to pool their efforts within the framework of the Arab Maghreb Union (AMU) which they created for this purpose on February 17, 1989 in Marrakech.

Past and present history show that the area covered by these two groups while often the scene of conflicts, has also experienced beneficial exchange.

Before examining these ties and analyzing their scope and prospects, an outline of the organization of the two groupings will first be presented.

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II. THE ORGANIZATION OF THE EEC AND THE AMU A. The EEC

Instituted by the Treaty of Rome on March 25, 1957 between France, Italy, GFR, Belgium, Netherlands and Luxembourg, was expanded three times.

In 1973, Great Britain, Denmark and Ireland were added; in 1981, the membership of Greece was accepted and, finally, in 1986, Spain and Portugal joined the Community.

The objective of the Community as set out in the Preamble of Treaty of Rome is to ensure, by a common action, the economic and social progress of member countries by removing the barriers dividing Europe.

At the organizational level, the functioning of the EEC is ensured by two main organs:

1. The Commission

Made up of 17 members appointed by their respective governments for a period of four years, the Commission has the right of initiative and attends to the implementation of decision taken by it or by the Council and supervises the application of Community legislation by member states.

At the functional level, the Commission is divided into 20 General Directorates and 10 specialized services, under the authority of 17 European Commissioners.

2. The Board of Ministers

Made up of one or more representatives of member states, enacts rules only on the proposal of the Commission; it is, therefore, the executive power of the Community.

The Board meets according to the agenda and is assisted by a committee of permanent representatives made up of the ambassadors of the member states accredited to the EEC.

In addition to these central institutions, the EEC is provided with a parliament composed of 518 members elected by direct vote on the basis of the demographic importance of each member state and with a court of justice composed of 13 magistrates appointed for a period of six years and assisted by five attorneys general.

Numbering about 360 million inhabitants and provided with more and more integrated economic structures, the EEC is on the way to becoming the world's main economic power, especially after the strengthening of its economic area and the confirmation of the unified internal market defined by the Single Act of 1987.

Facing this homogeneous grouping, five Maghreb countries "being aware", as stressed by the declaration adopted by Marrakech Summit, on February 17, 1989, "of the transformations that occurred and the connections and complementarities that take place in general at international level and of the challenges faced in particular by our states and our peoples in the political, economic, cultural and social fields _" have decided to establish the Arab. Maghreb Union to further strengthen their links of mutual aid and solidarity.

B. The AMU

The idea of unifying the Arab Maghreb within one single homogeneous and integrated grouping has long been an aim of the people living in this area of the world. Although over the years several attempts had been made to bring the different countries of the area closer, it was not until June, 1988 that the union project was initiated with the Declaration establishing the AMU being signed in the following year.

At the structural level, the AMU is provided with the following organs:

1. Board of Chairmanship. This is the only decision-making organ, which is made up of the heads of member states and successively chaired by each of them for a period of six months period.

2. Board of Foreign Ministers. This Board prepares the sessions of the Board of Chairmanship and considers the issues submitted by the Committee of Union Affairs and the Specialized Ministerial Commissions.

3. Committee of Union Affairs. This Committee is made up of members appointed by each state from its government to be entrusted with Union affairs.

4. Four Specialized Ministerial Commissions. These Commissions are instituted by the Board of Chairmanship and entrusted respectively with food security, economy and finance, infrastructure and human resources. These Commissions may create Sectorial Ministerial Boards.

5. Permanent General Secretariat. This Secretariat is headquartered in Morocco.

6. Consultative Board. This Board includes 20 members from each state, chosen from the legislative organs of member states which meet in ordinary sessions each year. The Consultative Board gives its opinion on any decision-making project submitted by the Board of Chairmanship and may submit recommendations to it. The Consultative Board is headquartered in Algeria.

7. Judicial Organ. This organization, which is composed of two judges from each state appointed for a period of six years, renewable every three years, is entitled to settle disagreements as to the interpretation of the Treaty and Agreements concluded within the framework of the Union. It also gives consultative counsel on legal issues submitted to it by the Board of Chairmanship. It is headquartered in Mauritania.

The main objectives of the AMU is to become a region where the freedom of movement of individuals, goods and capital is ensured to member countries. It is also willing to cooperate with similar regional groupings, and to be an interdependent bloc ready to contribute to enriching dialogue and developing international cooperation.

This desire for cooperation is also shared by the EEC through its declaration after the Marrakech Summit when it expressed "satisfaction at the holding of this summit" and their congratulations to "conclusions adopted at the outcome of its proceedings".

"The twelve think that this step, of a historical far-reaching effect for the peoples of the Maghreb, should enable a mutually advantageous development of relations between the Community and its member states and the Maghreb". In this regard, the Community may consider to contribute to the building of the Maghreb Arab Union by cooperation actions of mutual interest.

III. AMU/EEC TRADE

Evaluation

At present the state of relations between the AMU and the EEC can be evaluated only on the basis of bilateral relations between each of the Maghreb countries and the European Community.

The consideration of these relations shows a similarity at the Maghreb trade level which is characterized by both a quantitative and qualitative imbalance to the benefit of the EEC.

At the quantitative level, the share of their trade with the Community represents 60% of imports and 67% of exports, while the share of AMU countries in the EEC's trade does not even reach even 4% (3.3% of exports and 3.8% of imports).

At the qualitative level, the trade structure of AMU countries with the EEC, as with the rest of the world, shows a high concentration (close to unity in the case of Algeria and Libya) of exports which are mainly made up of primary goods with **a** low added value (except for textiles in the case of Morocco and Tunisia), while the range of imports is very wide with more than 50% accounted for by manufactured products.

This assymmetrical geographical concentration of the trade of AMU countries with the EEC originates from historical reasons which shaped the foundations of economic and financial relations between these two areas and which were institutionalized in 1969.

IV. THE INSTITUTIONAL FOUNDATION OF AMU/EEC RELATIONS

The first agreements between the EEC and Maghreb countries were concluded in 1969. These so-called "association" agreements, mainly based on trade exchanges and which concerned only Morocco and Tunisia, were concluded under article 238 of the Treaty of Rome which stipulates that: "The Community may conclude with a third country, union of states, or international organization, agreements establishing an association characterized by reciprocal rights and commitments, common actions and particular procedures". The benefits generated by the clauses of this article were only of a commercial nature. Morocco and Tunisia were to benefit from a quantitative and tariff exemption for industrial products exported to the EEC. In the agricultural field, the advantage accorded to the products of these two countries in the Community market was the same as that allowed to the same products in the French market, except for preserved products of fruits and vegetables which were not assimilated either to industrial or agricultural products. Moreover, Morocco and Tunisia had to allow some advantages to the EEC for milk, meat preserves, sugar, etc. As for industry, the agreement provided for a tariff and quota reciprocity on behalf of Morocco and Tunisia to Community products in order to allow the development of local industry.

This agreement on trade mainly aimed at strengthening preferential relations which prevailed between France and these two Maghreb countries and which made exception to the rules of customs union originating from the Treaty of Rome. Indeed, from 1963, negotiations started between the EEC and the two countries with a view to concluding a strictly commercial agreement, but which was also meant to preserve for Maghreb products the advantages already obtained in the French market.

The agreement signed in 1976 between the EEC, Morocco and Tunisia was a better one in that it contained more provisions than that of 1969. This second so-called "cooperation" agreement includes trade, economy, finance, technology and labor.

Algeria, which obtained independence only after the establishment of the EEC, continued to benefit from the trade system conferred to it by statutes which it was enjoying before independence. Thus, without signing the association agreement of 1969, Algeria profited by the advantages granted to associated countries. However, after 1968, Algeria was increasingly subjected to which led both parties to enter into negotiations ending by the concluding of the 1976 agreement as for Morocco and Tunisia.

This agreement aimed at canalizing for the EEC all the external aspects of the economic activities of the two Maghreb countries. In fact, while taking its inspiration from the protectionist spirit of the Treaty of Rome, it falls within the framework of a "Mediterranean Global Approach" as defined in 1972 by. the heads of state of the EEC. It comprises restrictions under the form of tariff quotas, minimum reference prices, delivery timetables for agricultural products and an inflexible application of the definition of the rule of origin for industrial products.

The other aspect of this agreement enables Maghreb countries to benefit, in addition to trade facilities already included in the association agreement of 1969, from financial facilities accorded by the EEC, such as loans under favorable conditions and even nonrefunded aids. The part devoted to labor gives to Maghreb workers the same advantages as those of Community workers.

With the extensions of the EEC to Spain and Portugal, the very essence of the 1976 cooperation agreement was questioned with regard to agricultural products. The adaptation agreement of 1988 was unfavorable to Maghreb countries, especially by the exclusion of several agroindustrial products, the reduction of some quota levels and the adjustment of entry prices between 1990 and 1995.

Like Algeria, Mauritania continued to benefit from its association with the EEC even after its independence in 1960.

This association was institutionalized in 1963 within the framework of the Yaounde Convention collectively concluded between the six European countries, and the eighteen African countries and Madagascar and which was renewed in 1969. This cooperation was supported by the European Development Fund.

With the first extension of the Community in 1973, the membership of Great Britain was followed by the association of the Commonwealth countries and the provisions of Yaounde were extended in February 1975, in Lome to the Group of African, Caribbean and Pacific Countries (ACP) without reciprocity of accorded advantages (European exports do not benefit from preferential treatment).

Libya has not concluded any cooperation agreement with the EEC.

V. THE PROSPECTS FOR AMU/EEC RELATIONS

The future of economic relations between the AMU and the EEC should be considered both from a pragmatic and a prospective dimension.

A. The Pragmatic Aspect

Economic relations between the two groups should be established on the basis of mutual interests; the degree of development of these relations depends on the reconciliation capacity of the various interests at stake. And if the motive of the EEC's cooperation is mainly the desire of ensuring steady supply sources and reliable outlets for its economy, the major concern of the AMU countries is to overcome their difficulties which revolve around issues of economic and financial dependence.

1. Economic Dependence

In contrast to the EEC, the economic structures of the Maghreb countries have on the whole a high degree of similarity and extroversion due to geographical determinism, historical considerations and economic "nationalism".

In fact, the Maghreb countries being endowed with more or less the same natural resources and having had a similar colonial experience, had, just after their political independence, the same economic structures based on the primary sector and linked to the former colonial power.

Furthermore, the developmental imperative led these countries, even though with different organizational choices of production, to strengthen this dependence especially for the acquisition of capital goods necessary to the development of the economy, thus enhancing the interdependence between imports and exports. Consequently, any variation of external demand determining the volume of exports greatly affects the foreign trade of Maghreb countries.

This dependence on the *foreign* market by Maghreb countries was made worse by food dependence, which has now become a structural problem involving such strategic products as cereals (between 20% for Morocco and 60% for Algeria), sugar (75%), vegetable oils (85%) and animal products.

The increasing resort to the international market to meet domestic demand continues to increase the deficit of the agro-food balance of- AMU countries, and exports receipts continue to decline, thus worsening financial dependence of these countries.

2. Financial Dependence

The distortion between the developmental and consumption needs which determine import levels and the exports required by an elastic international demand led to the commitment of Maghreb countries vis-a-vis the international monetary and financial market to adjust their balance of payments.

This commitment has been marked by an increase in the amount of the current debts of these countries (Libya excepted) since the mid-1970.s, reaching a critical level in the last few years.

The reasons for this increase in debts are both internal and external.

The internal reasons are linked to the financial needs of equipment projects and consumption goods while the external reasons originate from the existence since 1974, of a mass of international liquid assets looking for investment opportunities. As a- result, developing countries were incited by private international banks, governments and international monetary institutions to become more and more indebted during the second half of the 1970s.

In the 1980s, the indebtedness of Maghreb countries continued due to an increase in interest rates in real terms and the world economic recession which led to a decrease in exports which contributed to a drop in external receipts.

Given the severity of these unfavorable factors which hamper the growth of the AMU and taking into account the logic of the Single Market of 1993 which will lead to the strengthening of protectionism and the restructuring of the Community's means of production, the relations between the two groupings should be understood within a dynamic approach and focused on catalytic fields which take account of the requirements of active participation in the international scene.

B. Prospective Approach

All things considered, the two groupings are experiencing deep changes while attempting to strengthen their economic and social foundations.

In the North, by building a unique economic area, the Community is attempting to close the gap with the United States and Japan in the field of advanced technologies, biotechnologies, etc., which many think will be the leading sectors in the next century.

For this purpose, the EEC in 1987 issued "The Single Act" to provide itself with the necessary means to fulfill its ambitions, among which are the following:

1. The abolition of intra-Community technical and physical barriers;
2. An increase in domestic demand supported by a market of 360 million consumers;
3. The mobility of intersectional and intrasectional productive factors fostered by the free movement of persons and capital;
4. The concentration of enterprises caused by international competition in strategic sectors.

These parameters should be combined with economies of scale which would lead to a decrease in the costs of productive factors and an increase in output entailing a decrease in consumption prices.

The induced effect of this growth was reflected, all things being equal, by the increase in overall European demand stimulating growth at the world level.

In the South, the emergence of the AMU should lead to the industrial, agricultural, commercial and social development of member states and the pooling of the necessary means for this purpose, especially by carrying out common projects and drawing up general and specific programs in this field (Article 3 of the Marrakech Treaty).

To achieve this objective, the AMU program provides among others

for:

1. The harmonization of economic and financial policies of investment and trade financing, as well as that of insurance and investment guarantee;
2. The gradual harmonization of monetary policies with a view to utilizing in the future a common currency;
3. A step-by-step harmonization of customs policies with a view to establishing a Customs union;
4. The generalizing of Trade Preferences and the removal of nontariff obstacles;
5. The creation of Trade Information Networks;
6. The development of productive activities, services, infrastructures and communications;
7. The setting up of financial means for the AMU budget and compensation modalities for losses likely to result from the integration process.

A mechanism has already been established for the, implementation of this program concerning agricultural product exchange, trade, investment, guarantee, dual taxation, transportation and transit, the definition of the customs union principles, the definition of economic integration stages, etc.

The question that must be answered is what kind of relationship will be established between the two groupings in order to counteract the effects of the Single Market.

VI. THE EFFECTS OF THE SINGLE MARKET ON AMU/EEC RELATIONS

The advantages accorded by the EEC to AMU countries, within the framework of cooperation agreements which are limited to reduced tariff rates coupled with selective and limited financial aid, may be removed after the completion of the Single Market due to the protectionism inherent in national restrictions currently applied by some member states which may be transposed to the Community level.

The achievement of the Single European Market which represents an advanced stage in the integration process started in 1975 will be marked by the development of economies of scale and by increasing efficiency leading to more active competition.

Towards this end and to achieve more efficiency, the EEC may need to fix the Community norms at a high level, making difficult the adaptation of Maghreb enterprises to these new requirements due to their less sophisticated technologies.

Furthermore, the increase in demand created by the widening of the internal market will enable European enterprises to improve their competitiveness and thus act on overall European supply and demand.

However, given the present conditions of production in AMU countries, the additional European demand will not concern Maghreb products (except for some raw materials) whose demand can be met to a large extent by intracommunity supply.

Broadly speaking, the impact of the European Market may be negative and the solution of this problem may be sought through the definition of a new cooperation approach which would take account of the objective constraints and the interests of the two groupings without limiting themselves to only mercantile relationships.

VIL. CONCLUSION

The desire to establish a beneficial and balanced cooperation has been expressed time and again in the declarations of both parties. Various ideas have been put forward to define the axes of this cooperation.

At the economic level, common action may focus on the development of a partnership which should concern at the same time traditional projects such as self-sufficiency in food, infrastructure, energy and transport, as well as fields such as scientific research, new technologies, data processing, communications, etc.

Nevertheless, such cooperation cannot begin without giving due consideration to the following:

1. In Europe there are two separate orientations:

One is prompted by a continental will and is drawn towards the North and the East within the framework of the "Great Europe", and the other falls within the scope of a Mediterranean global approach which tries to deepen and further develop on the basis of the proximity strategy.

In consideration of the concrete actions undertaken by the EEC in the last few years, it seems undeniable that the Northern vision outweighs the Southern orientation. Therefore, in order to correct the balance, the Maghreb should be valorized in the EEC's relations with third countries by giving it due consideration, and the AMU should contribute to the achievement of this objective.

2. The AMU should be viewed by its member countries as a solution to their joint economic difficulties and not merely as a political convenience.

The combining of efforts and the pooling of the economic potential of AMU member countries would enable the development of economies of scale which would lead to less dependence on the world market and a collective increase in self-reliance by the creation of a region to be shared by Maghreb contractors in keeping with an integrated developmental outlook.

The strengthening of the internal structure of the AMU and the valorization of its economic interests will surely increase its credibility and its negotiation power with the EEC, and, henceforth, such negotiations should always take place within groupings.

9

INDICATORS OF COMMERCIAL AND TECHNICAL RELATIONS BETWEEN EGYPT AND THE EC AFTER 1992

Farouk Abdelhalim Shakweer*

This survey deals with possible future relations between Egypt and the EC. It is based on present relations, trends of international trade policy and mutual interests between developing countries and the EC. For this reason, this survey is in three parts. Part One touches upon the general framework of trade relations between the Common Market and developing countries in general, including Egypt. Part 71w deals briefly with present trade relations between Egypt and the EC in all their different aspects. Finally, as a conclusion to this survey, Part Three comments on some aspects of Egypt/EC relations.

I. INTRODUCTION

It is difficult for any researcher to make precise economic predictions especially in the light of the quick pattern of change in the international economic and political situation both at the level of countries and of economic groupings.

Faced with this rapid change, establishing indicators in order to analyze commercial and economic relations between countries is especially difficult, if we have to analyze the relations between one country and all the member countries of the EC.

In any case, there are some axes around which trade relations between developing and developed countries revolve. These axes are:

1.The developing countries continually suffer from difficulties in international trade such as the increase in protectionism by the use of nontariff

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measures in developed countries. According to a World Bank report, the percentage of imports which were affected by nontariff measures between 1966 and 1986 amounted to 20% of US imports, 40% of Japanese imports and 160% of EC imports.

In 1986, 21% of the exports of developing countries to the OECD group suffered from nontariff barriers such as quotas, industrial norm agreements and the like, and this figure does not include tariff measures and sanitary qualitative controls imposed on those exports.

2. The developing countries have no other alternative to promote their economy and develop the structure of their productivity other than to increase their participation in international trade (for goods and services). However, the difficulties faced by the exports of developing countries are not limited to tariff, nontariff and sanitary restrictions, but are also due to the absence of measures preventing developed countries from using the assistance reserved for agricultural and food products to lower their price in their local markets and to compete against developing countries in other foreign markets.

The money lost to developing countries by the abovementioned difficulties may exceed the volume of the official assistance that they receive from developed countries during some years.

3. The partial and noncomplementary solutions to the debt problem which most developing countries suffer from, and more particularly those which have reached a degree of advancement in the construction of the necessary infrastructure to develop their economy, does not permit the establishment of a clear strategy for economic and social development programs. The political criterion which governs the cancellation or the reduction of debt by creditor countries at whatever time they see fit, cannot serve as a reasonable and convenient program for economic growth in developing countries.

4. We notice a constant move towards economic groupings on all continents. These groupings give the impression that there is no longer any room for a single country in international trade relations, that soon we shall see the creation of gigantic economic entities, and that if no corrective action is taken, the weaker groups will face the same difficulties as those experienced by

weaker countries. Available data shows that the role of the EC in international trade is increasing more than that of any other existing economic grouping.

Whatever the reasons may be, the failure of those groupings to create a greater share of trade between their members leads to more difficulties in the liberation of the trade of the countries belonging to the same group. If the coming decades are those of economic groupings, it is better to pave the way for them so that they can succeed in creating better opportunities for trade between their members, and thus increase the income of their people.

II. RELATIONS BETWEEN EGYPT AND THE EUROPEAN COMMUNITY

The first commercial agreement between Egypt and the EC was signed in Brussels on December 18, 1972. The clauses of the agreement were limited to the regulation of trade between the two parties and included the following particular points:

1. To allow some Egyptian agricultural and industrial products tariff reductions when entering the EC, as mentioned in the agreement.
2. To allow some EC export products tariff reductions when imported by Egypt.
3. To allow the exports of the two parties to benefit from the clause of the most favored nation.

The two parties also agreed to set up a joint commission to administer the agreement and ensure its execution. The agreement was valid for a period of five years starting from the date it came into effect.

It was clear that the agreement was for a transitory period during which the Community would study the bases of its cooperation with the countries with which it had signed similar agreements.

As for economic, technical and financial cooperation, Egypt in 1977 signed two agreements with the EC:

a) The Cooperation Agreement between the Arab Republic of Egypt and the EC.

b) The Agreement between the Arab Republic of Egypt and the European Community for Coal and Steel.

The clauses of the cooperation agreement signed in 1977 and its protocol of amendments signed in 1987 are based on two main principles:

a) To allow all Egyptian industrial exports to enter the Common Market free of duties and quotas except for raw cotton yarn and cloth, (their export is regulated by arrangements determined each year, and they are also duty free).

b) To reduce the customs duties of the main agricultural exports during fixed periods in the year and in some cases all the year in accordance with the clauses covered by the agreement.

As a general principle, export is open to all Egyptian agricultural products whatever the quantity, while quotas and time restrictions are related to the reduction of customs duties.

III. THE PRESENT TRADE SITUATION

By looking at recent developments in commercial relations over the last seven years, we notice that the balance of trade between Egypt and the EC shows a continuous and increasing deficit with a peak in 1986 when Egyptian exports reached ECU 1,831 million versus ECU 4,573 million in imports from the EC.

The deficit decreased in 1987 and remained acceptable reaching its lowest level in 1989.

Value in Million ECUs

Year	Egyptian Exports (I)	Egyptian Imports (2)	Balance of Trade	Cover ratio (1) / (2)
1983	2976	5264	- 2288	56.5%
1984	4122	6635	- 2 5 2	62%
1985	4138	6324	- 2382	63%
1986	1831	4573	- 2742	40%
1987	2121	3735	- 1614	57%
1988	1241	3675	- 2034	43%
1989	2441	3749	- 1308	63%

(These statistics include trade with Spain and Portugal starting from the year 1984).

The danger of this decline comes from the fact that the European Community as a whole represents the largest partner for the Egyptian economy since it absorbs more than 40% of the value of the exports and covers more than 45% of imports as shown in Table 3 which gives the geographical distribution of Egypt's foreign trade for the period 1984/1985 and 1990/1991.

Looking at the most important items of trade between Egypt and the EC, we find that Egypt imports great quantities of steel and reinforced iron. Although Egypt has recently started to export, with competitive prices, some types of steel and iron products to some member countries of the EC, it seems unlikely that this will continue. Egypt depends more on foreign markets to get raw and intermediate materials, investment products and consumer goods because of the application of commercial and investment policies which are complementary in the fields of imports, industrialization and management of the trade balance. From 1981/1982 until 1990/1991, the percentage of imports of raw and intermediate materials increased from 46% to 57%; this means that national production is more dependent on imports for its intermediate products, which limits any policy aimed at the reduction of imports. The increase in the volume of imports of intermediate products was made at the expense of the import of investment products that are necessary for development and also at the expense of the import of consumer goods as shown in Table 2.

The continuous deficit in the balance of trade with the EC may come from the relative lack of competitiveness of Egyptian imports in comparison to the various products coming from an international market characterized by a great freedom of supply and the deterioration of the terms of trade concerning Egyptian product% a fact which constantly reduces the buying capacity of Egyptian products either because of the decrease in the price of Egyptian exports or the increase in the price of imports from the EC.

A survey was conducted by the Ministry of Economy on the impact of the change in quantity or price on the increase or decrease in the value of the exports of the main imported goods during the fiscal years 1987/1988, 1988/1989 and 1989/1990. This survey demonstrated that the increase in the value of imports for the fiscal year 1988/1989 compared to the previous year came from the increase in the price of imports by an average of 1.8%, while at the same time, the volume of the same type of imported goods decreased by an average of 3.5% as compared to the previous year. This means that there are two simultaneous effects which lead to an increase in the price and a decrease in the volume and, therefore, in the cost price of imports. Raw materials, intermediate and consumer goods suffered more from this decline due to the increase in price.

IV. THE FUTURE OF COMMERCIAL RELATIONS IN THE LIGHT OF EUROPE OF 1993

What interests us in the measures taken now by the European Community to regulate its economic integration by 1992 is the impact of those regulations on Egyptian exports to the Community. We shall, therefore, give a brief evaluation of the possible effects on Egyptian exports and imports as well as the impact on economic, technical and financial cooperation and investment.

A. Industrial Products and Raw Materials

If we look at the structure of Egyptian industrial exports to EC countries for the last five years, we notice that they are limited to three main products: crude petroleum, cotton yarn and aluminum.

1) Crude petroleum: The export of petroleum represents 80% of Egypt's total exports to the EC, and the yearly average to those countries is 13 million tons. If we look at the statistics of petroleum worldwide, we find that the average consumption of EC countries by far exceeds the average of their reserves, which means that they remain dependent on imports for their needs. The setting up of a single market by 1993 will increase the EC's need for energy as a result of the tremendous growth of its economies and its industrial expansion and because of the possible increase in world consumption as a result of the increase in production in EC countries.

Thus, it is expected that the Single Market will have a positive effect on the export of crude petroleum.

2) Cotton yarn and cotton textiles: In spite of the cooperation agreement and the additional protocol with the EC which stipulate the exemption of all Egyptian industrial products from tariffs and quotas, the EC every year sets some measures which determine the export quotas of cotton textiles and yarn to the EC and the export share of each of the 12 EC countries, with a certain

flexibility from one country to another. Exports of cotton yarn and textiles in 1987 were about 47,000 tons representing 7.4% of global Egyptian exports. Predictions indicate that the achievement of the Single Market in 1993 will not make any tremendous change in the structure of production and trade of these products since the only benefit likely to come from the Single Market is a decrease in the cost price by a rate not exceeding 1 %'. This is because the EC countries have already eliminated all existing barriers between them in that field as far as these products are concerned.

As for garments, it is expected that most European producers will make high fashion clothes leaving the manufacture of yarn and textiles to developing countries, especially, those of East Asia. As for the quotas imposed at present by the European Community on the imports of yarn, textiles and garments, it is expected that they will change into a quota at the level of the whole Community without any division between the 12 members because of the integration of these countries into a Single Market and the abolition of customs at their common frontiers. It is certain that this will be to the benefit of Egypt, because the present situation which consists of the division of a global quota between the 12 member countries leads to big difficulties. This is because in most cases the quotas do not represent the real needs of each country thus requiring the transfer of a share from one country to another or the subtracting of it from the quota of the following year. All this creates great complications, lengthy procedures and additional costs for the exporter and, ultimately, prevents the increase of Egypt's exports of cotton yarn and textiles to the EC. The conclusion is that the European Community of 1993 will be beneficial to Egypt in regard to its exports of cotton and textiles.

3) Aluminum: Aluminum has in the recent years become an important item in the list of Egypt's exports to the EC. In 1988, aluminum exports amounted to 78 million tons representing 4.8% of Egypt's global exports. It is expected that EC imports of aluminum will increase to cater to the industrial expansion that will take place in 1993, and consequently, it is expected that the Single European Market will have a positive effect on Egyptian aluminum exports.

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* Some predictions indicate that there will be a savings in the production cost of up to 4% because of the reduction in procedures.

B. Agricultural Products

The clauses of the cooperation agreement and the additional protocol signed with the EC stipulate a reduced. tariff for Egypt's exports of agricultural produce by a percentage varying from 4% to 8% during specific periods of the year. It also stipulates a progressive exemption from customs duties for some agricultural exports in specific quotas and during specific periods of the year and for limited periods of time. Since the early 1960s, the EC has followed a unified agricultural policy, and, therefore, the implementation of a Single Market in 1993 will not have any negative effect on Egypt's agricultural exports to the Common Market. However, it is expected that competition will increase between Egyptian agricultural produce and similar produce from Spain, Greece and Portugal as a result of the fluidity of internal commercial activity between the member countries of the Community and the dismantling of all customs barriers and internal protective means which will ultimately lead to a decrease in the cost price of goods traded inside the Single Market. Competition will also increase as a result of the resources that have been allocated by the Community to promote the agricultural and industrial sectors in the countries of Southern Europe. It is important to follow up the norms and specifications issued by the market for agricultural and food products so that they can be taken into consideration when exporting to EC countries after the Single Market is implemented at the beginning of 1993.

C. Egyptian Imports

The list of goods imported by Egypt from the EC is long and consists mainly of food supplies, investment, consumer and intermediate goods. These goods benefit from the clause of the most favored nation. It is expected that the establishment of a Single Market between EC countries will have numerous positive effects, an important one being a reduction in the production price and, as a consequence, the prices of European products will decrease as a result of free competition inside the Single Market and the advantages of its size, in addition to the technological progress and the use of the latest techniques in the face of external competition coming mainly from Japanese and American goods. The production surplus inside the EC will also motivate EC countries to offer financial facilities to developing countries in order to encourage them to increase their imports from Community countries. Thus, the implementation of a Single Market in 1993 will have numerous positive effects on Egyptian imports from the EC.

D. Economic, Technical and Financial Cooperation

The EC offers Egypt financial facilities in the form of grants and low-interest loans through the financial protocols signed between the two parties in the framework of a global cooperation scheme. So far, three protocols have been signed:

1) The first protocol worth ECU 170 million for the period 1977 to 1981;

2) The second protocol worth ECU 276 million for the period 1981 to 1986;

3) The third protocol worth ECU 449 million for the period 1986 to 1991.

The third protocol expires in 1991, which means that the fourth protocol will be in effect when the Single Market comes into existence in 1993. As these protocols increase in value due to the preferential political and economic relations which link the two parties and the desire of the EC to help developing countries finance their development programs, and in light of the great financial surplus likely to accrue from the Single Market, a substantial increase in the value of the fourth protocol is expected.

With regard to bilateral relations with individual EC countries, the joint statement attached to the cooperation agreement signed in January, 1977 concerning bilateral cooperation stipulates the following:

"The two contracting parties recognize that the globality of the agreement signed between Egypt and the Community in some fields of cooperation does not prevent any member country from signing bilateral agreements with Egypt for cooperation in the same fields".

Bilateral cooperation between Egypt and individual EC countries will not suffer from the creation of the Single Market in 1993. It will lead instead to more low-interest loans and technical and commodity grants from each country to Egypt as a result of the economic growth generated by the Single Market and the desire of each country to increase the volume of its exports to Egypt. Thus the Single Market is expected to further promote economic and financial cooperation between Egypt and the member countries of the EC, and to increase the contribution of those countries to Egyptian projects in all fields of production. They should also give more weight to their proposals by offering preferential financial conditions in order to compete with American and Japanese proposals.

E. Food Assistance

Egypt receives food assistance every year as part of the annual assistance granted by the EC to developing countries. The value of the food assistance depends on the overall amount decided upon by the Community for that purpose. Egypt is at the top of the list of the countries receiving food assistance from the EC. The Community also endeavors to maintain the level of food assistance granted to developing countries in order to help those countries satisfy part of their requirements and, consequently, reduce the cost of importing food products. For this reason, the Single Market of 1993 is not expected to have any negative effect on the volume of food assistance by the EC to developing countries, including Egypt.

At the bilateral level, the Single Market is likely to increase the food assistance granted by each country of the Community to Egypt because of the increase in agricultural production and the surplus resulting from the implementation of the Single Market. However, we would like to draw attention to an important factor in determining the value of food assistance to each developing country. This factor is the degree of commitment of the beneficiary country to use the proceeds from the sale of the food grant to finance local food projects, because the Community's policy concerning the granting of food assistance is to help developing countries to satisfy their food requirements, and also to finance agricultural and food projects likely to satisfy some of those requirements.

F. Investments

In accordance with what is stipulated in the Treaty of Rome concerning the free circulation or transfer of capital inside the European Community, many member countries of the Community have abolished all restrictions imposed on the circulation of capital. Britain abolished currency control in 1979. Italy passed many laws in 1988 to free the circulation of capital and abolish the control on currency in readiness for the Single Market in 1993. France, Belgium and Luxembourg are taking measures to abolish restrictions on the circulation of capital and currency control by 1993. As for Germany, Holland and Denmark, the circulation of capital is totally free inside the European Community.

The recommendations to abolish any type of control over the circulation or transfer of capital inside the European Community were adopted in June, 1988 and became effective for most member countries on July 1, 1990. A transitory period for adaptation was given to Spain, Greece and Portugal until the end of 1992 when they will have to comply with the European Community legislation. However, an extension of this period for Greece and Portugal until 1995 is envisaged.

It is worth mentioning that the measures which have been adopted aim also at freeing the transfer of capital outside the European Community, since the member countries of the Community have stated their readiness to free the circulation of capital to and from countries not members of the Community.

There are also predictions indicating some possible positive results coming from the measures taken by member countries of the Community and aiming at the free circulation and transfer of capital and the abolition of all barriers which hinder its circulation. This, along with the economic growth which will be enjoyed by the economies of those countries, will make it possible to invest a part of the surplus of the capital in attractive regions for investment outside of the Community and more, particularly, those areas which enjoy an adequate environment for investment and have preferential relations with the EC. On the other hand, there are strong indications that the abolition of barriers to the free circulation of controlled or noncontrolled goods inside the Single Market may be a negative factor for investing outside of the Community, because investments inside the Community will benefit from the advantages provided by the implementation of the market by 1993. Such advantages include technological progress, economic growth and a large production market along with the efforts to reduce the disparity between the more advanced and the poorer countries inside the Community itself. The volume of investment in Spain, for example, increased by 10% in 1986, when it joined the Common Market, in comparison to the previous year, and this growth in investment rose in 1987 by 11% and by 14.5% in 1988.

Once the Single Market is operational, and after the creation of a unified monetary system and a unified European Central Bank with the resulting free circulation of capital and currency, it is likely that most investment will be made inside the Community and, more particularly in less developed countries such as Portugal, Spain, Greece and Southern Italy where wages are still low in comparison to more advanced Community countries, and where there are also numerous opportunities and a great number of projects available for investment.

We would also like to point out that many European firms have oriented their investment towards Hungary and Poland with an eye to the possibility of their joining the EC after 1993, and also because of the low cost of their production and their proximity to European markets. Hungary is currently preparing an ambitious project to attract European investment. Thus, it is advisable to begin working towards attracting European investment to Egypt by pricing production components competitively, creating a better investment environment, offering adequate incentives to foreign investment and developing sea and air travel networks between Egypt and the member countries of the EC.

In fact, European capital contributes to Egyptian projects either individually or collectively. The contributions of the Common Market are concentrated in the sector of industrial projects characterized by a high degree of industrialization. European investment in this area in 1990 was £252 million which represented 6% of total industrial investment in the projects created under the law of Arab and foreign capital. Food industries and engineering are the main areas of investment for European capital in industrial projects. These are followed by petroleum services in which EC investment accounts for 60% of total investment. Generally speaking, the service sector occupies second place after industrial projects. Europe has invested £108 million in this sector, which represents 5% of the total invested capital.

Table 1

Egypt's Imports from the EC (1988/90)

(Value in million Egyptian Pounds)

COUNTRY	1988		1989		1990	
	Value	%	Value	%	Value	%
Spain	178.1	2.8	205	3.2	298	3.1
Portugal.	25.4	0.38	18.2	0.28	23.2	0.34
Denmark	141.4	2.1	145.8	2.3	210.4	2.2
England	691.9	10.5	690.5	10.8	991.4	10.3
Ireland	182.6	2.8	223.8	3.5	140.3	1.4
Italy	1142.6	17.3	964.4	15	1620	16.8
Belgium	305.8	4.6	359.5	5.6	468.5	4.8
Germany	1788	27	1613.4	25.1	2621.1	27.2
France	1375.6	20.7	1479	23.2	2329.3	24.2
Holland	606.7	9.2	537.7	8.4	721.3	7.9
Luxembourg	1	0.015	4.4	0.08	2.1	0.03
Greece	180.3	2.7	169.5	2.6	174.3	1.8
EC TOTAL	6620.5	100	6431.2	100	9639.9	100

Table 2

Global Export and Imports According to the Degree of Processing and Use During the Years Indicated

(Value in million dollars)

	1981/82		1985/86		1990/91		Jan./Feb.91	
	Value	%	Value	%	Value	%	Value	%
EXPORTS:								
Industrial Products	703.1	26	758.4	31.9	1670.9	56.2	795.6	46.1
Fuel	1655.8	58.9	2299.2	66.3	1230.8	41.1	896.1	51.9
Cotton	425.5	15.1	408.9	11.8	79.7	2.8	34.1	2
EXPORTS	2811	100%	34665	100%	2971.4	100%	1725.8	100%
IMPORTS:								
Fuel	379.4	2.2	330	2.3	165.8	2	60.5	1.8
Raw and intermediate products	4060.8	46.1	4969.7	50.5	4656.8	55.5	1866	56.2
Investment -s	2267.8	25.7	2299	23.4	1782.8	21.3	7117	21.5
Consumer g o ods	220.2	25	2245.8	22.8	1775.6	21.2	6814	20.5
IMPORTS	8810	100%	9844.5	100%	9319.6	100%		
Balance of trade	- 5999		- 6378		- 5409.7		- 1593.8	
Bxp/imp. ratio	31.2%		35.2%		35.5%		52%	

Source: General Statistics Department - Ministry of Economy

Table 3

Global Geographical Distribution of Egypt's Foreign Trade in 1984/85 and 1990/91

(Value in million dollars)

Geographical distribution	1984/85				1990/91			
	Imports	%	Exports	%	Imports	%	Exports	%
Eastern Europe	**1672.5**	16.3	765.8	22.7	1047.6	12.5	603.7	20.3
Western **Europe**	4539.8	**44.4**	1652	43.4	3779.4	**45.1**	1199.4	40.4
Asia	1482.6	**14.5**	895.4	23.5	1220.5	14.6	684.3	23.7
Africa	197	**1.9**	**40.9**	**1.1**	109	1.3	172.8	5.8
North America	1402.5	13.7	127.3	3.4	1333.8	15.9	253.7	8.5
Central America	22.2	**0.2**	12	**0.3**	32.8	0.4	9.7	**0.3**
South America	189.6	1.9	+	+	203.9	2.4	**13.3**	0.5
South Seas **Islands**	299.3	2.9	0.1	+	279.2	'3.3	1.5	**0.1**
Others	**428.2**	4.2	**213.9**	5.6	374.8	4.5	33	**1.1**
TOTAL	10232.7	**100**	**3807.4**	100	**8371**	100	29314	**100**

Volume of trade	14040.1	11352.4
Balance of trade	-6425.3	-5409.6
Cover ratio	37.2%	35.5%

Source: Central agency figures converted to US Dollars

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THE PROSPECTS FOR MOROCCAN/ EEC RELATIONS IN 1992

Abdeljalil Saubry*

Europe is undergoing profound changes **and** the EEC of the 1990s is situated at the middle of two fundamental movements which may prove if not contradictory, at least not easily reconcilable.

One movement is motivated by the ambition of the EEC to speed up its integration and perfect its internal cohesion. The objective of 1992 is not only the elimination of physical frontiers and fiscal controls and the harmonization of standards and national regulations, but also the creation of economic, monetary and political union.

This desire for integration finds its origin in the Treaty of Rome (signed in 1957) which provides for the establishment of an "European Common Market freed from the obstacles to the free movement of individuals, goods, services and capital".

The Single Act of 1987 constitutes an amendment to the Treaty of Rome and aims at speeding up European integration.

The other movement is motivated by the ambition of the EEC to strengthen its role and influence at a time when the European Space is being redesigned and cards are being redealt at a global level.

In fact, the stakes are of the utmost importance for the European Community.

The newly born democracies in Central and East Europe, but also the new prospects for economic cooperation with these countries; the will of the EFTA countries to integrate with the EEC and the Community option of those

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of South Europe (Cyprus, Malta, Turkey) represent the political, economic, social and geostrategical, challenges to which the EEC cannot remain insensitive or indifferent.

Therefore, one must keep in mind all these facts in addressing the future prospects of Morocco/EEC relations.

In this connection, it would be useful to briefly recall the institutional framework and main events in Moroccan/EEC relations over the past 20 years.

I. SHORT HISTORICAL BACKGROUND OF MOROCCO/EEC RELATIONS

The first negotiations between Morocco and the EEC started at the beginning of the 1960s, just after the independence of Morocco and only a few years after the signature of the Treaty of Rome which established the European Community. However, the parties concerned were both careful and even reserved.

The Community's market organization was in embryo, and its foreign policy was still inadequate.

Morocco, which was newly independent, hesitated to commit itself too far and early in an association which was likely to have political consequences and possibly even a colonialist "connotation".

Consequently, the first association agreement signed in 1969 was of limited scope and of only five years duration, concerned only commercial aspects and did not include some products such as new products and vegetable preserves.

The early 1970s, during which this Agreement was to be renewed, was marked by two important Community events which postponed the date of renewal: the first extension of the European Community to some North European Countries and the implementation of the overall Mediterranean policy of the EEC which took the place of the "stop-go policy" which had been predominant until then.

Finally, in 1976 and against this background, a Cooperation Agreement was concluded with Morocco, while at the same time similar agreements were signed with Algeria and Tunisia.

This Agreement constitutes at present the basis of Moroccan relations with the Community.

H. MAIN CHARACTERISTICS OF THE COOPERATION AGREEMENT

The Cooperation Agreement is, firstly, a preferential agreement: tariff concxsions for some agricultural and agroindustrial products and total exemption for industrial products without reciprocity commitment.

Secondly, it is a global agreement containing in addition to the commercial section, section on economic and technical cooperation, a financial protocol and a social section concerning Moroccan migrant workers in EEC countries.

Finally, it is an illimited and dynamic agreement, which may be adapted and revised.

III. EVALUATION

A. Trade

The Moroccan/EEC Cooperation Agreement adopted in 1988 on the occasion of the extension of the EEC to Spain and Portugal consists almost exclusively of tariff advantages (preferential customs duties) whose effect are highly limited by nontariff restrictions (obligation to respect certain reference prices, difficult conditions for obtaining the rule of origin which is required for customs exemption, quantitative limitations for some textile products, etc.

Therefore, if the overall volume of Moroccan trade and the export-import ratio have relatively improved, the deficit still persists ECU 325M million in 1985, ECU 340 million in 1988 and ECU 550 million in 1989) and the general structure of trade has not fundamentally changed.

Moreover, the progressive reimplementation by Iberian countries in 1990 of supportive mechanisms initiated within the framework of the common agricultural policy is fundamentally changing the competition conditions to the detriment of Moroccan products. These mechanisms include preferential reference prices, exports subsidies in third markets and aids to producers' organizations.

B. Economic and Financial Cooperation

The volume of funds mobilized within the framework of financial protocols has improved (ECU 130 million in 1976, ECU 199 million in 1981 **and ECU** 324 million in 1987). However, despite some specific supports (agronomic research, energy, etc.), economic cooperation remains on the whole inadequate in regard to investment drain, technological transfer and the development of existing or potential complementarities.

In the social field, the EEC has not been able to meet the commitments provided for in the Agreement which are themselves limited to the working conditions and social insurance of Moroccan nationals settled in Europe.

The Community proposals made in 1981 to put these commitments into concrete shape were far from complying with the provisions contained in bilateral conventions being enforced by some countries of the European Community.

Living conditions, freedom of movement and installation, training, employment, familial reunion and aid for returning home represent important issues to which the EEC has not given a common and unified answer.

Given this evaluation, what then is the future of Morocco/EEC relations?

The inadequacies noted in the implementation of the Cooperation Agreement, its organic and objective limits and the disappointments and worries expressed by other Mediterranean partners with regard to the deep internal and external changes occurring in Europe led to the formulation by the Commission of a series of proposals whose objective is to ensure that EEC-Mediterranean third country relationships experience "a quantitative and qualitative jump measuring up to the political, economic and social stakes in the area".

These proposals, which are called the Renovated Mediterranean Policy, mainly lay stress on the development of economic and financial cooperation notably through an increase in the resources provided for within the framework of the next financial protocols and an increase in the possibilities of "exclusive of protocol" actions which concern regional cooperation and environments.

However, the Community proposals have proved insufficient in the commercial field (an increase in the agricultural quotas from 3 to 5% per year) and almost nonexistent in the social field (the stay, working and movement conditions of Moroccan nationals settled in European countries).

The real effect of the provisions of the Cooperation Agreement and the future of the relationship between Morocco and the Community can be evaluated adequately only in terms of the following variables of the Community's economy which are themselves linked to a large extent to the achievement of the Single European Market of 1993:

1. The overall or sectoral growth of the European economy and its effects on the foreign trade of the European Community.
2. The mobility of goods and services inside the European Market.
3. The standardization policy of the EEC and the technical barriers laid down by the Community.

IV. THE IMPACT OF THE INTERNAL MARKET ON MOROCCAN/EEC RELATIONS

In general, the priority given by European decision makers to the internal integration and cohesion of the EEC is likely to marginalize the Mediterranean dimension.

Consequently, the 1992 spiral in political and geostrategical terms may make Europe turn its back on the Mediterranean area.

Taking into account the various degrees of uncertainty involved, the evaluation of the impact of the Single Market can only be made at the level of the probable tendencies in global terms.

1. According to European studies, the completion of the Single Market will lead to economies of scale (abolition of infra-EEC physical and

technical barriers, opening of public markets to European competition, better savings and investment conditions) which would result in an increase in production.

This potential growth would be reflected by the increased participation of the Community in the development of the countries of the South. It is believed that a growth rate of the Community will increase from these countries by 1.2%.

However, the expected European growth will not necessarily lead to a concomitant increase in Community imports (the possibilities of internal substitution will undoubtedly be more important), not will it be profitable to all sectors and third countries.

The level of Community imports from developed countries will increase in such sectors as electronics, automobiles, telecommunications, etc.

2. The abolition of all obstacles to trade will enable Moroccan exports to have access to a unified market without frontiers which has 330 million consumers.

However, these advantages are hampered by European norms, the harmonization of which is based on a high level of protection (Article 101 of the EEC Treaty, as improved by the Single Act of 1987).

Ever since, the normative aspect of the European Market has given rise to well-founded fears as regards its effect on Moroccan sectors linked to the Community Market, in particular, those of the agro-food industry and phosphates and its by-products.

3. The establishment of the Single Market will certainly mean a return to the productive structure of the Community economy which will be reflected by important concentrations of European firms.

This prospect may be prejudicial to Moroccan export firms most of which are inadequately structured to meet the new conditions of competition.

4. Moreover, restructuring through consolidation and merging may lead to the delocalization of some European activities which would offer interesting opportunities to the development of a Moroccan/EEC partnership.

5. In the field of services (banks, *insurance,* transport, tourism), the abolition of national regulations, barriers and administrative restrictions will reduce the costs and disadvantages inherent in national markets, but will also generate restructuring and consolidation which will certainly stimulate and intensify competition. Moroccan operators should prepare themselves for this eventuality.

At the social level, the failure of the implementation of the Cooperation Agreement may be made worse by the achievement of a single employment market **and** the rise of a "Social Europe".

Part Three

THE SINGLE EUROPEAN MARKET AND ASIAN COUNTRIES

EUROPEAN INTEGRATION OF 1992 AND FOREIGN TRADE OF OIC MEMBER STATES: AN EXPLORATORY PAPER

Nuimuddin Chowdhury

I. OBJECTIVES

The objectives of this paper are to provide a sense of what is to be understood by the European Integration of 1992 and to outline how the proposed integrations of economic and monetary systems within the European Community (EC) will have repercussions for the member states of the Organization of the Islamic Conference (OIC).

This paper is deliberately descriptive and illustrative as the accessible information has not permitted the testing of specific hypotheses. The assessment of the impact of the Single European Market on OIC member states is an extensive exercise requiring the efforts of a research team. However, the principal motivation of the paper is to sensitize a broad cross section of influential individuals, who have an interest in the economic performance of the OIC, as to a plausible range of likely results of the European Integration of 1992. The paper has three further Sections. In Section II, the rise of the European Community as an economic market of gigantic proportions is put in the context of the rationale for economic integration. In Section III, the implications of the extension of the Single European Market for OIC member states is dealt with in fairly board terms. At this stage, a few economic constructs are introduced which facilitate the understanding of the economic forces of trade creation, diversion and trade erosion.

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II. THE ECONOMIC RATIONALE FOR THE CREATION OF THE EUROPEAN COMMUNITY (EC)

The onward march of modern technology makes for competitive pressure in the global markets of today, as never before. Technology, in its advances, has embraced areas of production, marketing and promotion through such features as product miniaturization and versatility, rapid process, product obsolescence and sharp increases in the capacity to handle previously incredible volumes in both production and marketing. These advances have brought markets together, fostered economies of scale and raised minimum efficient plants, and created great pressures to specialize and compete. For many countries, the capacity to rationalize the existing structure of production and marketing has become as important as the ability to invest in productive capacity for the future. The rationalization of economies has ceased to be a trendy buzzword. Adjustment and readjustment have become a necessity as today's nations strive to raise their average incomes amid the increasingly chillier climate of international economic rivalries. For countries not endowed with an abundance of exploitable natural resources, rationalization and adjustment must result from the division of labor, and specialization. Economic integration among nations with broadly comparable levels of economic development and with geographically appropriate locations has been adopted as one guiding principle for nurturing the forces of competition and specialization.

The formation of the European Economic Community (EEC), and its growing popularity, is notable in this respect. By most accounts, the European Community (EC), by which name the erstwhile EEC is now called, has now come to personify the triumph of economic integration in Europe over economic sovereignty : starting with six signatories in 1958, the EC now has 12 members, and represents the second largest single economic market in the world after the United States. Austria and Sweden have already applied to join. Three former communist countries of Eastern European are also willing to join. These mature democracies are exercising their economic options in favor of integration (and, thus, potentially extensive and politically fractious restructuring), and this is significant because the evolutions of the technologies and markets have combined to hand a decisive advantage to integration relative to self-reliance, at least in the European context.'

1. The 12 countries are France, Germany, Italy, Luxembourg, Belgium, Holland, England, Ireland, Spain, Portugal, Denmark and Greece.

More specifically, what makes current non-EC members want to join the EC? Answering the question brings out into the open the specificities of the compulsions behind the current attempts to integrate economic and monetary policies, unify markets and expand the coverage of the EC. A thorough grasp of these compulsions can create valuable insights as to policy dilemmas within OIC member states. (These compulsions are presented in this paper in the abstract with the hope that subsequent detailed research will identify them.)

The willingness to integrate is felt most strongly inside the industry groups, and occasionally, within finance industry. Because of the close connections between manufacturing and scale economies, industry would react positively to attempts to expand the size of the market and to foster specialization. Strong banking sectors within these countries would also like them to join in order to remove national barriers to their markets, and because the interests of bankers are never totally divorced from those of industry. A large part of the burden of the adjustment of integration within these countries tends to fall on small holder peasantry, retail trade, smoke stack industries like coal, and, in countries where banking and insurance are fledgling or accustomed to fixed commission, on financial industries. The modern farming sector, comprising large "competitive" establishments with *high* technical efficiency and vigorous marketing efforts, usually can live with integration. The option for integration out of a democratic process suggests that the balance of the consideration of national interest lies in the advantage of a competitive posture, even when painful.

The usually informed balancing acts preceding such options, the existence of considerable latent competitive prowess and the high supply elasticities involved, combined with the associated political risks, generate an efficient and dynamic structural response in these countries, in order to increase national gains relative to what would have prevailed under "self- reliance".

I I I . FORMATION OF CUSTOMS UNION (CU) AND INTERNATIONAL WELFARE

Economic integration is one way to foster free trade between nations, and thus provide further impetus to the international division of labor. It is important to understand how Cbs affects, and is affected by international trade.

The impact of the integration on nonpartners is usually measured by the direction of trade, using the concepts of trade creation (TC), *and* trade diversion (FD). (Trade erosion is the opposite of TC.) These concepts require some definition at this stage, for a situation with unitary elasticity of demand in the countries acceding to a CU. First, TC occurs where the elasticity of substitution between the domestic production of the newly-integrating countries and their imports (from partner(s) and the rest of the world) is greater than one : after tariff-induced protection is removed, low-cost imports will substitute for domestic production, thus creating trade that did not exist before. If for an exiting CU, in addition, imports from both aspirant partners and nonpartners have a unitary elasticity of substitution, the formation of the CU will create import flows from nonparties to the CU, thus having a double trade creation effect. But trade diversion (I'D) will result for nonpartners when the elasticity of substitution between imports from partners and nonpartners is greater than one : that is, imports of the countries in the original union from nonpartners will now decline or vanish.[2]

Besides changes in market prices, TC and TD are triggered by changes in real relative prices. When real prices are free to change, the prediction of the consequences of the formation or the expansion of Cbs becomes indeterminate. Real relative prices are said to change when the quantity of goods which a country has to export in order to be able to import a given quantity of imports (commodity terms of trade) changes. The indeterminacy arises from the difficulty, indeed the theoretical impossibility, of predicting the nature of changes in relative prices following from economic integration. Consequently, prediction of the likely scope, character and impact of the intercommodity and intercountry substitution becomes impossible. The situation is compounded by an advanced degree of product differentiation in the prevailing structure of production and international trade around the market economies of the world today, and by the strong presence of supranational business entities in the cost and price decision process bearing on the formation of international prices. Both features (i.e., strong product differentiation and transnational resource-allocative decision-making) upstage the role of returns to intellectual property in pricing products that enter consumption

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2. This argument takes real international prices as given. If the nonpartner has no close competitor so that it can freely raise the prices of its goods, then its exports to the CU will in fact increase, thus creating trade. The absence of competition of course amounts to an elasticity of substitution of less than unity, may be close to zero.

and trade. Due to the proprietary nature of these returns with relatively few market references, a lack of predictability of the effects of CU is bound to result.

The distinction between the two concepts of possible price effects in the wake of a CU. The relative price structure within the union and the international price structure points to the two time horizons over which the effects of economic integration work themselves out. One of these is the short to medium term of up to two years or so. The second horizon relates to the long term, when the incremental investment induced comes on stream, potentially altering the structure of real prices.

The direction of impact on trade from nonpartners may not be the same over these two horizons. This is because the market prices generated during the first horizon inform the structure of long-term incentives. The second horizon influences the structure of investment, including that in intellectual property. There is, thus, some interdependence between the two sets of prices. Because of this, to take advantage of the trade fallout of economic integration, nonpartner countries have to remain abreast of, indeed frequently anticipate, cost-and-price developments, especially over the second horizon. A capacity to remain abreast in this sense is necessary, but is not a sufficient condition for the capacity to maintain the customary levels of economic welfare of the nonpartner countries.'

IV. IMPACT OF EUROPEAN INTEGRATION ON THE OIC

So far, we have treated economic integration in a mainly theoretical context. We now, however, must turn to the status of European Integration after the execution in 1992 of the Single Market Act. This will then lead to a discussion

3. The preoccupation in this paragraph with prices and cost stems from our assuming away nonprice trade restrictions (discriminatory practices, bilateral deals, special treatment in areas of investment and antidumping measures, export restraints, variable levies and minimum prices). Such an assumption may not be realistic. One GATT study in the mid-1980s found that hundreds of products in a broad range of industries faced nontariff barriers in at least one EC country (The Economist, April 20, 1991, p.76). The EC cites trade barriers and unfair practices as important evidence for problems of trading with the US, an undoubtedly comparatively open economy (EEC, March, 1991, p.4). This disclaimer will mostly apply to any economic argument for integration. However, the fact remains that the presence of nontariff barriers has been increasingly stand in the way of gaining market access by rivals.

of the probable general impact of this integration on the economies of OIC member states.

At the moment, the EC comprises 12 countries with an estimated population of 340 million. At an estimated 1988 per capita gross domestic product of about US $15,828 per year, the EC boasted in that year a market of the size of more than US $5 trillion. Easily, the EC was the largest single market that year, after the US. Per capita income in Norway, Sweden, Austria, Finland and Switzerland - five of the seven European Free Trade Association (EFTA) countries - in 1988 averaged at about US $16,500. The one major development in 1992 will involve the creation of the European Economic Area (EEA) comprising the seven member countries of the EFTA. The EEA will in 1992 be absorbed into the European Common Market, but will not be a member of the European Community. This means that they will not participate in the EC jaw-marketing process.[4] Poland, Hungary and Czechoslovakia are negotiating for an association arrangement, whereby import restrictions on these countries' exports to the EC will be eased. These three countries have strong backers in Germany and Holland.

On economic policy, the existing 12 members of the EC are currently negotiating to integrate economic policy making, in order to establish a monetary union by the end of this year. A treaty on economic and monetary union (EMU) is due to be signed in December, 1991 in Maastricht, in the Netherlands. The EMU will be implemented in stages. In the first stage, among other things, fiscal convergence among partners is to be achieved. Friendly pressure from fellow finance ministers and the European Commission is supposed to curb overborrowing by the government. In 1994, the second phase will begin, and in 1996, the third phase will be launched forming a currency union, probably comprising countries that meet the criteria of economic convergence. Some countries may arrive at the third phase earlier than others, thus giving currency to the term "two-speed Europe". The objectives of the EMU are steady growth with low levels of inflation and interest rates, avoidance of devaluation within the narrow band of the European Monetary System (EMS) and good budgetary health.

4. Two of the members of the EFTA - Sweden and Austria - have already applied, and the European Commission has already made public its review of the latter's application. (The Economist, September 28, 1991). Finland and Switzerland are also reported to be predisposed towards applying for EC membership.

A whole new political structure, that would oversee this remarkable and unprecedented transition, is currently under intensive debate. Whatever the outcome, the political structure will remain a fledgling one for some years in the ace of inevitable deep-seated national interests.

But one thing is certain. The Europeans, for all their mature differences, are closer than ever to endorsing the net advantage of integration in economic and monetary matters. This is one principal lesson from the acceptance by the post - Thatcher United Kingdom of the need to join the EMS.

It may be stressed that what is new in 1992 in the field of economic integration is the accession of the seven EFTA countries into the European customs union. Changes in international trade in the expanded Common Market will result from this accession. In this paper, the analysis takes this as the starting point.

In addressing the question of the Single European Market will have on the OIC member states, we shall,first, offer one disclaimer. We have been able to present no concrete results as to the likely impact, and, thus, we shall only speculate using general empirical logic on the direction of the impact on TD and TC. In that context, we draw some insights from a structural form model which isolates the appropriate variables and establishes their underlying causalities. This model, follows the work of Armington (1969) and Corado and de Melo (1983). The essential result of the model is that TC and TD are fundamentally driven by intercommodity and intercountry substitution in consumption and production : the various elasticities (of supply and demand and of substitution) are of decisive importance. Especially for the EFTA countries, the elasticities of substitution (to be defined below) between imports from the EC and from the various OIC member states are going to be significantly different, depending upon the resource base and pattern of specialization of the OIC member country in question. Hence, we need a taxonomy of OIC countries.

V. A TAXONOMY OF THE OIC

For present purposes the Islamic countries fall into four groups. First, there is the group of countries with abundant natural resources (e.g., oil, tin, bauxite and rubber) relative to population where oil revenues, for example, routinely generate high incomes, budget surpluses, strong currencies and macroeconomic stability. Their export structure is heavily concentrated in petroleum and resource-based products, while their imports feature a dominance of manufactured consumption goods (e.g., food, textiles, footwear, items needed in home-making, etc.) and durable consumption goods (e.g., automobiles, electronic recreational items, electrical home appliances, office automation devices, telecommunications systems, health aids, etc.). Countries in the Middle East (excluding Yemen and Jordan) and Brunei and Libya fit this description most aptly, while Indonesia, Malaysia, Iran and Nigeria come close behind. The chief economic characteristic of these countries is the (relative) absence of competition for their exports. That is, EFTA countries will have a relatively high elasticity of substitution (ES) between the domestic production of petroleum and imports and an ES between imports from new partners (i.e., the EC) and nonpartners in the OIC of greater *than* one. (As we shall see below, these elasticities are crucial to the effects on trade.)

The second group comprises a small number of countries that are relatively deficient in natural resources but have a measure of industrialization within protectionist regimes. These are Malaysia, Turkey, Pakistan, Egypt, Bangladesh, Nigeria and Sudan (Indonesia and Turkey are the most industrialized of this group). Manufactured exports from them include metal goods and industrial components, cement and petroleum products, textiles and garments, jute goods and leather products, surgical instruments and sports goods, canned food and fish. The structure of imports of these countries from the EFTA features machinery and equipment, industrial and pharmaceutical chemicals, optical, and other health aids, home appliances and recreational electronics, leather and fashion goods, telecommunications systems, professional supplies, etc. The technology content of their imports-mix is significantly more modern than their exports. Their chief economic characteristic in the present context is a relatively high ES between the EFTA's imports from newly joining partners and nonpartners in the OIC, while the ES between domestic production within the EFTA and overall imports may be either inelastic or elastic, depending on the product.

The third group comprises the small number of Mediterranean countries having a competitive advantage in horticultural products for exports to the EFTA. These are Tunisia, Egypt, Algeria and Morocco. These countries also export livestock and dairy products.

The other countries of the OIC, mostly in Africa, are sparsely populated with small markets. Infrastructure is poorly developed, thus raising the costs of marketing. Their natural resource endowment per head is small. Their exposure to international trade is fractional, as compared with the first three groups of countries.

VI. THE ROLE OF ELASTICITIES

Before proceeding any further, it may be useful to classify the effects on trade for import competing sectors according to the values of critical elasticities. Table 1 produces predictions of the direction of the change in trade flow between the EFTA, the new partners and nonpartners in the OIC countries - on the assumption that the terms of trade among these countries do not change, and that demand elasticity within the EFTA is unitary. S1 stands for ES between overall imports (from new partners -, to - be and OIC nonpartners) and domestic goods, while S2 stands for ES between imports from the partner and those from nonpartners in the OIC.

Several observations are to be made right away. Firstly, expansion of an existing CU leaves the structure of international trade - both intercountry and intercommodity - unchanged when both elasticities are unitary. Second, the total imports of CU will increase where S 1 significantly exceeds unity, and total imports will fall where S1 significantly falls below unity.

Table 1

Change in Expenditures following CU Formation
(For import competing sectors)

Parameter value	Total imports	Imports from partners	Import from nonpartuers	Truman cases
S 1 = S 2 = 1	**Constant**	**Constant**	**Constant**	
S1>1,S2=1	+	+	+	**Double TC**
S1=1.S2 <1	**Constant**		+	+
S'> 1.S2 < 1	+	- (+)	+	**External TC** **Internal TD**
S1=1, S2>1	**Constant**	+	-	*
S1,S2 > 1	+	+	-(+)	**Internal TC** **External TD**
S1<1,S2>1	-	+(-)	-	**External TD** **External TE**
S2<1,S2=1	-		-	**Double TE**
S1,S2 < 1	-	-	+(-)	**Internal TD** **Internal Te**

Note : TC = **Trade Creation,** TD = **Trade Diversion, TE = Trade Erosion. Source: Corado and de Mob 1983)**

A) Trade creation means an increase in the volume of trade that was already taking place; trade diversion means switching of already existing trade from a nonpartner; trade erosion means a decline in the level of already existing trade. In the above table, "external" relates to nonpartners, while "internal" relates to the union members, both old and new, if any.

B) The table is constructed to depict the case with a unitary price elasticity of demand in the EFTA countries.

C) By import competing sector is meant a sector with a high ratio of imports in expenditures (and with a low export share in domestic production).

Firstly, the reason why S1 is critical is because changes in expenditure are governed by the strengths of the consumption substitution at work. Price changes can influence the consumption pattern for some commodities more powerfully than for others. Secondly, when S 1 is greater than one, the increase in the expenditures on imports relative to domestic goods within the countries joining a

CU is proportionately higher than the increase in the price of domestic goods relative to that of imports.' Thirdly, where S1 > 1, not only does the pattern of expenditure change as between domestic goods and imports as a result of a movement from a high-cost supply source to a low-cost one, but there is also an income effect induced by the use of lower prices in meeting a given demand level. This income effect creates more demand for imports from both sources. Fourthly, given the overall impact on import, the direction of impact on imports from nonpartner as distinct from partner countries depends on the ES between imports differentiated by source. In general, the greater the S2 (which is to say, the higher the proportionate changes in the ratio of imports from partners to those from nonpartner are relative to given proportionate changes in the ratio of the price of imports from nonpartners to the price of imports from the partner), the greater will be the substitution of partner imports for those from nonpartners. Put differently, nonpartners have higher prospects of TD when an expanding CU embraces one or more countries with economies that are strongly competitive with the rest of the world. When S2 is low - this happens when product differentiation is advanced or when transnational corporations collaborate, rather than compete, across partner-nonpartner divides - increased demand for imports will translate into trade gains by nonpartner countries. Fifthly, the worst prospects for trade result from both elasticities of substitution being relatively low; double trade erosion results when S I is less than one and S2 equals 1.

Finally, the substitution effect and the income effect can potentially be of differing magnitude. It is usual in the literature to assume that the substitution effect will outweigh the "income" effect (Truman, 1975, for example). But, in principle, the "income" effect can at times outweigh the substitution, and then the prediction of trade consequences will differ from the result obtained by Truman. In the case where S 1 > 1 and S2 <1, there is a substitution of partner imports for nonpartner imports and an "income" effect as total import expenditure increases (S1> 1). Given the symmetry of import

5. Elasticity of substitution between goods, $X_1$and X_2 along an indifference curve is equal to alog (Q./ Q_y) / a log (Py/Px). The numerator is the proportionate change in the ratio of quantities of the two commodities. The dominator is the proportionate change in the ratio of their prices, with a reversal of the order. It is positive where the goods are normal. Intuitively, when the ES exceeds one, the numerator exceeds the denominator. Price changes affect real consumption shares. Households, being price takers, price changes to the advantage of imports and thus result in an increase of overall imports and a fall in the demand for domestic goods in countries joining a CU.

allocation, imports from both sources will increase if the income effect outweighs the substitution effect.[6]

Conjectures on S_2

We have no idea at all about the sectoral magnitude pf s1 for the seven EFTA countries who will accede to the European Single Market. Some estimates are available on S2 for Portugal for the period 1962- 1978 : estimates are for imports from EEC and non-EEC countries (Corado andde Melo, 1983). It has to be conceded that Portugal is at best a semi-industrialized economy, as compared with most of the EFTA countries, except Iceland. Nonetheless, we may, with caution, glean some insights as to the probable range in which the S2 's for the most important import-competing sectors within EFTA countries may be likely to lie.

Table 2 presents the elasticities at a two-digit level of aggregation. The individual coefficients are to be taken with a grain of salt. It is the overall sectoral pattern that we wish to stress. Sectoral results suggest that the responsiveness to relative price changes of imports differentiated by source are high for metal products, transport equipment, iron and steel, nonferrous metals and other manufacturing, textiles and agricultural goods. Lower elasticities were obtained for chemical products, nonelectrical machinery, paper and printing, other nonmetallic minerals, other food products, basic chemicals and derivatives of petroleum and coal. A negative elasticity was obtained for petroleum. Some critics may argue that the estimates in Table 2 are probably significantly lower than the true elasticities applicable to EFTA countries. The understatement is to be inferred from the following general logic. As compared to 1962-1978, the last decade has witnessed a significant technological advance in diverse fields, such as, hormone engineering (in livestock raising), robotization (in pacing machines) and shop floor and office automation. Technology leads can influence the speed with *which* price differentials are responded to; hence, the elasticities of substitution are likely to be greater than a decade ago. And, hence, the estimates of Table 2 are highly suspect.

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6. For export-competing sectors the income effect is much stronger so that, contrary to import - competing sectors, the signs in parentheses are most likely to occur, which amounts to a higher incidence of double trade creation (if S1 > 1) and trade erosion (if S1 < 1).

However, we should remember that production differentiation and specialization have proceeded in tandem. The former becomes indispensable when digopolistic competition is vigorous. Differentiation, by carving out consumer clientele, with relatively fixed market loyalty, will serve to lower elasticities of substitution. Moreover, in the developed market economies of the West, a growing part of final consumption is in the form of durable goods. Expenditures on durable goods are less price responsive, as the quality of after sales service over the life of goods becomes another (proprietary) determinant of expenditures. Finally, global oligopolist may employ the tactic of collaborating, rather than competing with, other oligopolies inside the CU. The recent collaboration between Mitsubishi and Daimler-Benz is one of many such collaborative deals. This, too, will offset the tendency of the elasticity estimates to rise, due to pure technological progress. On balance, we feel that the elasticities in Table 2 provide a very broad but workable basis for isolating the trade effects on OIC countries.

Of course, in Table 2, OIC countries are lumped together with all non-EEC countries. Exports of petroleum products, the inter se elasticities for imports from the EEC, and those from OIC member states may, if anything, be lower than the estimates in Table 2. This may be because, firstly, except for oil, tin, rubber and bauxite, a greater incidence of supply-side bottlenecks make it more difficult in these economies (relative to other groups of non-EEC economies) to react to relative price change in the short to medium term. Moreover, currency overvaluation, credit shortage, a structure of incentives more favorable to domestic production, etc. have usually combined to produce what may well have been somewhat lower elasticities than in Table 2. It is likely, however, that most of the S2 between imports differentiated by source (EEC and OIC member states) would mostly be higher for the EFTA region, than the ES between domestic production and imports. That is S2 - S1 is likely to be significantly larger than zero for most sectors.

On the assumption that for EFTA countries the values of S1 are likely to be higher than one, and on the basis of the above discussion, three (tentative) observations may be made about the changes in the European Integration of 1992. Firstly, TC and hence, the domestic cost of adjustment are likely to be relatively large since of high S1 for most sectors. Secondly, external TC and internal TD are unlikely to occur since for most sectors where S1 exceeds unity, S2 may also be greater than unity. Thirdly, external trade diversion is likely to be significant since most sectors, except those exploiting low-cost natural resources, such as, oil, tin, bauxite and rubber, are likely to have high values of S2 and also high values of S2 - S1. The remaining observations of paper are devoted to this aspect of the impact of the arrival of the European Single Market on garments exporting OIC countries.

Garments are an important exports item for several OIC members, e.g., Pakistan, Bangladesh, Egypt and Malaysia. Currently, garments production is an important activity in Portugal, Italy and Greece. After the completion of the Single Market, trade in garments is likely to be diverted to the disadvantage of those countries in the OIC not covered by the Generalized System of Preferences (GSP). In addition, the bilateral deals between EFTA countries and some OIC countries on garments exports are bound to be scrapped. The diverted trade will probably be to the advantage of Portugal, and Italy.

The Mediterranean countries will face strong pressures on their horticultural exports to the EFTA, as will Turkey.

Table 2

Summary of the Results of the Estimation of the Elasticities of Substitution between Imports from the EEC and from non-EEC Countries'

	Estimation Sector	Chosen Model[2]	Test	Substitution Elansticity	Income Coefficient
1.	Agriculture an and Forestry	1	(-1.704)	1.672 (4.631)	
2.	Livestock	2	(-7.762)	2.252 (4.766)	
3.	Fishing and Preserves	1	(-1.900)	2.491 (2.062)	-4.173
4.	Mining and petroleum	1	(-.112)	-.665 (-2.349)	-.776 (-2.183)
5.	Meat and Preserves	2	(-.304)	1.496 (1.555)	
6.	Fruit Preserves	1	(2.511)	1.686 (2.512)	-.588 (4.651)
7.	Other food products	1	(-1.239)	.644 (.829)	1.022 (3.987)
8.	Beverages and Tobacco	2	(.331)	3.016 (1.480)	-3.278 (-1.550)
9.	Textile	1	(-.257)	1.094 (19.271)	-.639 (-4.325)
10.	Clothing	2	(.387)	1.184 (2.259)	-.296 (-1.144)
11.	Footwear	2	(1.073)	1.567 (1.050)	
12.	Wood and Furniture	2	(1.803)	2.846 (2.567)	
13.	Pulp. Paper and Printing		(-.029)	.758 (-957)	-.090 (-.437)
14.	Basic Chemicals	1	(2.197)	.281 (.693)	-.386 (-1.735)
15.	Other Chemical Products	1	(.040)	.995 (4.531)	-.058 (-.424)
16.	Derivatives of Petroleum and Coal	1	(-.234)	.149 (.186)	2.688 (10.274)
17.	Glass and Other Nonmetal Minerals	1	(.189)	.662 (1.095)	
18.	Iron and Steel	1	(-.509)	1.888 (1.576)	-2.424 (-4.652)
19.	Nonferrous Metals	1	(-1.520)	1.633 (10.088)	
20.	Metal Products	1	(1.037) - 1.520)	3.274 (8.543)	-.576 (-2.572)
22.	Nonelectrical Machinery	1	(-.922)	.883 (1.527)	-.076 (-.581)
23.	Electrical Machinery & equipment	1	(.625)	1.270 (3.471)	-.923 (-10.219)
24.	Transport Equipment	1	(.573)	2.577 (5.824)	-2.460 (12.577)
25.	Other Manufacturing	2	(-.413)	1.201 (2.488)	

1. T-statistics in parentheses. One star denotes significance at the 5% level. "Test" is a test on the null hypothesis $C_1 = -C_2$.
2. Model 1 has current prices and Model 2 has lagged prices as independent variables.
3. One star denotes significance for non-autocorrelation.
4. The underlying model is: Log (ME/MR) = CO + C Log (PMR/PME) + C3 Log Y + E (where ME = partner import); MR = nonpartner import; PMR = Unit price of nonpartner import; PME = Unit price of partner import; Y = Per capita real disposable income; e = an appropriate error process.

Source: Corado and de Melo (1983).

VII. CONCLUDING REMARKS

The formation of the European Single Market is likely to have far-reaching implications for the level and structure of international trade. The world economic system has grown increasingly interdependent. The collapse of communism in the Soviet Union and the prospects for the growth of market economies can only set the stage for even greater interdependence. As the Cold War exists in the policy-set and mind-set of the world's people, Western economic aid to many aid dependent OIC member states will (rapidly) decline. While humanitarian aid will no doubt survive longer, no one doubts that aid flows from the Western market economies to developing countries within the OIC will decline in real terms. As a result, trade imbalances, macroeconomic instability and economic stagnation are likely to loom over these countries' horizons. It is imperative that greater participation in international trade on the strength of competitive advantage be vigorously pursued. If exports have to grow vigorously in labor-using sectors, the macroeconomic policies (relating to the exchange rate, the accounting rate of discounting future, wage rate, policies regarding commodity and resource taxation or subsidies), and monetary-fiscal policies have to be critically reexamined and, wherever warranted, "reformed". The structure of economic incentives between domestic production and exports must become the major criteria of policy reform.

However, in conclusion, it must be said that the first order of business for the OIC is one of a crystallization of knowledge, supported by rigorous and disaggregate analysis of the impact of changes in European integration on foreign trade flows of OIC member states. This exploratory paper is a modest effort to mark the beginning of that arduous task.

APPENDIX I

COMPARATIVE GROSS DOMESTIC PRODUCT AT MARKET PRICES PER HEAD (AT CURRENT PRICES AND PURCHASING POWER PARITIES)

(PPP)

Country	1983	1984	1985	1986	1987	1988
EUR 12	10732	11713	12699	13714	14651	15826
Belgium	11067	12079	12915	13646	14677	15971
Denmark	11941	13324	14728	15999	16524	17184
Germany	12140	13393	14519	15673	16611	17967
Greece	6060	6620	7210	7646	7943	8619
Spain	7790	8436	9113	9891	10826	11821
France	12129	13104	14066	15125	15973	17168
Ireland	6914	7657	8275	8708	9514	10304
Italy	10996	12068	13101	14152	15151	16422
Luxembourg	12759	14156	15567	17021	17642	19130
Netherlands	11454	12563	13609	14566	15229	16244
Portugal	5878	6114	6622	7243	7907	8553
U.K.	11076	12060	13225	14405	15668	16994
Turkey	3549	3911	4251	4760	5207	5503
Norway	13349	15036	16735	18329	18661	20636
Switzerland	12698	14095	15254	16425	17546	18675
Sweden	14536	15749	17307	18666	19694	21112
Austria	10956	11864	12882	13737	14565	15810
Finland	11477	12573	13720	14734	15912	17436
U.S.A.	16064	18471	19878	21363	22837	24721
Canada	14885	16789	18505	19975	21500	23320
Japan	11507	12830	14158	15218	16437	18076

Source : Eurosta, 1990.

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COMMENTS

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Barely a year separates us from the European Single Act which will definitely establish European integration and raise it to a higher level. It is an event which will surely mark the end of the century through its economic, social and political implications and international relations.

On this point, the initiative taken by the ICDT (Islamic Centre for Development of Trade) and IDB/IRTI is quite praiseworthy and comes at an appropriate time to attract the attention of economic and political policymakers in OIC member countries with the advent of the European Single Market.

To be sure, the task is not easy and one seminar is not sufficient to outline and list all of the problems, but to have investigated ways of research and "cleared the field", so to speak, can in itself be considered progress.

This said, we would like to make a few remarks on Professor Nuimuddin Chowdhury's paper, entitled : "The European Integration of 1992 and Foreign Trade of OIC member states : An Exploratory Paper" before offering a number of proposals that we deem capable of advancing the thinking on this subject and of helping OIC member countries to overcome their problems.

There is no doubt that the work presented by the author in question is important in the present state of knowledge, if only for its methodological aspects, drawing inspiration strongly from the Corado and de Melo model relating to the effects of the customs union on OIC member countries.

This model has its own limits, in the sense that it concerns itself solely with trade flows leaving aside productive structures. The analysis in the terms of the elasticity of foreign trade cannot take into account all the possible varieties of situations. We must remember that the economic considerations appropriate to the theory of "comparative advantages" do not alone explain trade.

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In other respects, notwithstanding these limits, it remains to apply this model to OIC countries in their variety and heterogeneity.

Indeed, the member countries of the OIC have very diverse economic structures and "productive systems". The main indicators, macro-economic as well as microeconomic, differ from one country to another. Consequently, any attempts at aggregation and generalization are not likely to be very useful.

Similarly, the external position of each of the countries (and the main regions) towards the European Community is very different. The Islamic countries of Asia, for example, have only "loose" relations with the Community group : merely 16% of imports and exports.

Consequently, we must be careful of erroneous generalizations. Fortunately, and intellectual modesty requires it, Professor Chowdhury takes great care to specify that his work cannot go beyond the framework of an "exploration".

"The substance of the paper is deliberately descriptive and illustrative. The accessible information has not permitted the testing of specific hypotheses".

Having made these remarks, we would like to conclude with a number of proposals.

Firstly, it seems to us, on the methodological level, that it would be useful to evaluate, by branch and by products, the repercussions of the Single Act on the economies of the countries belonging to the Islamic Community. Only such analyses can help us avoid the dangers of generalizations.

Secondly, the United Europe does not represent only drawbacks for its partners. Far from it. It is simply a question of benefiting from the potential advantages it holds and seizing all of the available opportunities. Access to the European Market will certainly be difficult, but once achieved, it will undoubtedly constitute a real "windfall".

Lastly, one of the major lessons to be drawn from the European experience for our respective countries lies in the necessity to create and reinforce areas of regional integration in the Islamic World. This is the only means for these countries to face present and future challenges.

The European countries have seized the initiative. It remains for other countries to be equal to the requirements of the moment.

12

THE ECONOMIC IMPLICATIONS OF THE SINGLE EUROPEAN MARKET FOR THE ISLAMIC COUNTRIES OF ASEAN

Mohammed Ariff*

INTRODUCTION

Three of the six ASEAN (Association of Southeast Asian Nations) countries may be classified as "Islamic" countries. These are Brunei, Indonesia and Malaysia. Of these, Brunei is the smallest with a population of about 250,000 people, nearly all of whom are Muslims and devout ones at that. Indonesia is in fact the largest Islamic country in not only ASEAN but also the world as a whole, with a population of nearly 180 million people out of which about 90 percent are Muslims. Malaysia is about one-tenth of the size of Indonesia in terms of a population that numbers roughly 17 million, 55 percent of whom are Muslims. Although non-Muslims constitute as much as 45 percent of the country's population, Islam is indisputably the State religion in Malaysia. In the Sultanate of Brunei, of course, Islam is given State patronage as the official religion. Although the Indonesians are predominantly Muslims, Indonesia has declared itself a secular state. In all the three other ASEAN member countries, Muslims constitute only a minority. They account for less than 10 percent of the population in the Philippines. The corresponding ratios are 16 percent in Singapore and 4 percent in Thailand.

Brunei is the richest ASEAN country in terms of per capita gross national product (GNP), thanks mainly to its substantial oil revenues and the small population base. Brunei's high per capita income of US $15,390 (1987), however, does not imply correspondingly high living standards, as the bulk of the national income is concentrated apparently in the hands of a few. Indonesia, at the other extreme, is the poorest in ASEAN with a per capita income of US $470 (1988). Malaysia is a middle-income country with a per

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capita GNP of US $2,277 (1990). Basic data relating to these three economies are presented in Table 1.

All ASEAN countries, including the three Islamic ones, have traditionally been open economies, with external trade playing an important role. It cannot be denied that the outward-looking economic development strategies adopted by these economies have brought much progress and prosperity. However, they are vulnerable to external fluctuations, given the high profile of their external sector. The focus economies have learned to ride the surf through a process of learning by doing. Appropriate macroeconomic policies have been activated to cushion the impact of short-term external fluctuations.

External developments of a long-term nature, however, present a different set of problems. The rising tide of economic regionalism among developed countries, in particular, is a cause for concern. Regional groupings that matter most to the economies under consideration are the Single European Market (SEM) of the European Community (EC) and the free trade area arrangements of the United States with Canada and Mexico.

An attempt is made in this paper to examine the implications of the establishment of the SEM for the economies of Brunei, Indonesia and Malaysia. The rest of the paper is organized as follows. The next section briefly outlines the profiles of the focus economies. Section Three section sketches out the trade and investment matrix of these economies the EC. Section Four discusses the economic implications of the SEM for Brunei, Indonesia and Malaysia. Finally, some policy options are highlighted in Section Five.

II. **PROFILE**

The Brunei economy is almost totally dependent on oil and income on investments overseas. Efforts are underway to diversify the economy through agricultural and industrial development. However, shortages of land and manpower tend to limit the scope of agricultural and industrial expansion. Evidently, Brun < x does not have a comprehensive advantage in non-oil sectors. Its agricultural products are uncompetitive, while manufacturing is almost nonexistent. Brunei cannot resort to import substitution, as its domestic market is extremely small. Nor can it produce manufactures for the export market, as its products can hardly be competitive internationally. Labor intensive activities are out of the question, given the acute labor shortage and the high wage structure. Technology and human capital intensive manufactures, too, are also of little relevance, given the low technological absorptive capacity and the scarcity of skilled personnel. Resource intensive manufactures seem to be the only feasible alternative available to Brunei, and even in this sphere, Brunei has no choice but to seek out niches for itself in oil and gas related activities such as petrochemicals.

The Indonesian economy has undergone significant transformation during the last two decades. Its manufacturing sector has been growing rapidly after 1966, the sector's share of GDP increasing by about 50 percent in less than two decades (Hill, 1988). In the early stage or so-called "easy phase" of import substitution, manufacturing growth was concentrated in a wide range of consumer and intermediate goods. In the 1980s, Indonesia launched a second round of import substitution extending it to the production of capital goods. The Indonesian manufacturing sector was heavily protected and inefficient. The sector was penalized by the so-called Dutch Disease associated with the oil bonanza which led to the overvaluation of the Indonesian Rupiah. In the second half of the 1980s, Indonesia undertook bold policy reforms aimed at reducing the economy's dependency on oil, reorientating its manufacturing sector toward the export market. Consequently, the share of oil and as exports has fallen from 74.2 percent in 1980 to 40 percent in 1988, and that of manufactures has risen from 1.2 percent in 1970 to 30.1 percent in 1989 (Table 2). The contribution of the manufacturing sector to Indonesia's GDP has also increased from 8.9 percent in 1975 to 13.9 percent in 1987 (Table 3).

The profile of the Malaysian economy has changed even more dramatically, although it is still essentially a primary producer and exporter. It is remarkable that the share of manufactures in total exports has risen sharply from 6.3 percent in 1970 to 42.7 percent in 1988 (Table 2) and that the share of the manufacturing sector in the country's GDP has increased from 16.4 percent in 1975 to 24.2 percent in 1988 (Fable 3). The share of primary commodities in total exports fell from 72.8 percent to 54.1 percent between 1970 and 1988. It is noteworthy that the relative importance of the traditional primary commodities, rubber and tin, in total exports has dwindled markedly, falling from 53.0 percent in 1970 to just 7.5 percent in 1988 (Ariff, 1991). Malaysia's manufacturing sector even under the early import substitution phase was given only mild protection. In any case, the scope for import substitution was limited, given the small domestic market. Malaysia shifted its industrialization strategy from import substitution to export orientation in the early 1970s.

Brunei always had a very liberal trade regime. Imports have been allowed at low or zero tariffs. This certainly makes considerable sense, given Brunei's resource and factor endowments. Indonesia, the third largest economy in the Third World, had a rather restrictive trade regime with tariff and nontariff barriers and tight exchange controls until recently when Indonesia mounted an elaborate liberalization program (Ariff, 1990). By comparison, Malaysia's trade regime has been fairly liberal all through, with no exchange controls and with low levels of protection (Ariff and Hill, 1985). In recent years, the Malaysian economy has taken on an even more liberal posture through the privatization of public enterprises, debureaucratization, deregulation and decontrol (Ariff, 1990).

These policy reforms have injected greater efficiency into the system and rendered their products competitive. The Malaysian, and more recently the Indonesian, manufactures have been able to penetrate successfully into the markets of developed countries, especially the United States and the EC, despite protectionism (Ariff and Tan, 1991).

III. THE EC CONNECTION

The EC represents an important export market and a major source of imports and investment for Indonesia and Malaysia and to a much lesser extent for Brunei. This EC connection dates back to the colonial heritage of the countries. Brunei was a British protectorate; Indonesia was a Dutch colony; and Malaysia was a British colony.

The economic relationship, however, is asymmetrical. The EC is far more important to the Islamic countries of the ASEAN region than they are to the EC. Together, they account for less than 2 percent of the EC's exports and imports. This contrasts with the fact that the EC accounts for well over 10 percent of the exports of Indonesia and Malaysia.

However, it appears that the relative importance of the EC as an export market has declined for both Indonesia and Malaysia, its share falling from 16.1 percent to 10.6 percent for Indonesia and from 19.3 percent to 13.0 percent for Malaysia between 1970 *and* 1989 (Table 5). This notwithstanding, the share of manufactures in the exports of Indonesia to the EC increased sharply from 2.7 percent in 1970 to 46.8 percent in 1989. Similarly, the ratio of manufactures in Malaysia's exports to the EC has risen from 4.0 percent to 54.8 percent during the same period. (Table V).

It may be surmised from all this that the direction and composition of Indonesian and Malaysian exports have been changing markedly. In fact, there is evidence which suggests that these two economies are gravitating from the Atlantic to the Pacific. The United States, Japan and the newly industrialized economies (NIEs) of Northeast Asia are becoming increasingly important as markets for the exports of Indonesia and Malaysia (Table 5).

All this is further corroborated by the relatively small size of export trade intensity indices'. In 1989, the trade *intensity* index of Indonesian exports to the EC was only 0.4 compared with that of 4.8 percent in the case of exports to Japan.' Likewise, the trade intensity index of Malaysian exports to the EC also negligible, a mere 0.3 in 1989, compared with the 1.8 trade intensity index of its exports to the United States (Table 6).

Nonetheless, the intraindustry *component* of the Malaysia-EC trade has been growing significantly, with the intraindustry trade index' rising from 4.0

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1. The index measures the share of one country's trade with another as a proportion of the latter's share of world trade. The trade intensity index of experts (I ij) is defined as I×ij= (Xij/Xi/[Mj/(M_w - M_i)]

X_{ij} = Focus country's exports to destination j.
X_i = Focus country's total exports to the world.
M_j = Country's $_j$'s total imports from the world.
M_w = Total world imports.
M_i = Focus country's total imports from the world.

2. Much of the latter is attributed to oil exports.

3. The intraindustry trade index is defined as $\dfrac{R-S}{R}$

$$\text{Where } R = \sum_k (X^k ij + M^k ij)$$

$$S = \sum_k (X^k ij + M^k ij)$$

to 37.6 between 1970 and 1989. Indonesia's intraindustry trade with the EC has also grown but to a much smaller degree, from 3.2 to 8.0 correspondingly (Table 6). The difference in the intraindustry trade indices of Indonesia and Malaysia reflects the difference in the level of industrialization of the two countries.

There is very little that one can say about Brunei in this regard because statistics relating to Brunei are not readily available. In any case, Brunei plays only a marginal role in the context, as its major markets for its major product, oil, lie closer to home in the Asia-Pacific region.

Although manufactured exports of Indonesia and Malaysia to the EC have been growing in recent years, the bulk of their exports to the EC still consists of primary products. Malaysian primary exports to the EC include rubber, palm oil, timber, cocoa and tin, while Indonesian primary exports to the EC comprise mainly petroleum, coffee, rubber and more recently palm oil. But, the bulk of Indonesia's petroleum output goes to Japan and the United States, each taking about one-third, with a one-fifth being used domestically (Corbet, 1982). Malaysia , a net oil exporter, sells rubber to EC, sells almost all of its low-sulphur oil to Japan and Australia, and meets nearly all of its domestic needs with imports from the Middle East.

The EC, as an important Dialogue Partner of ASEAN, has entered into an agreement with ASEAN which became effective in 1980, paving the way for closer interregional economic cooperation (Akrasanee, 1982). Indonesia and Malaysia are among the "beneficiaries" of the EC's Generalized System of Preferences (GSP). Under the Cooperation Agreement between the EC and ASEAN, the EC's GSP was extended to a number of agricultural products such as pineapples and pepper. Many so-called "sensitive" items, especially in the manufactured exports category, are excluded or subject to tariff quotas. The Indonesian and Malaysian exports to the EC have encountered protectionist

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Where X^{k}_{ij} **= exports of industry i to country j of industry k.**

$^{k}_{ij}$ **= imports of industry i from country j of industry k.**

This measure would vary from zero to 100 when expressed in percentage terms. It would be zero is there if only interindustry trade and 100 where there is only intraindustry trade. The value of the index, however, is affected by the level of disaggregation of product categories.

pressures in recent times. The EC has been threatening to impose additional levies on palm oil. Tariff escalation also presents problems. Thus, crude palm oil for edible purposes faces a low 4 percent tariff while a 12 percent tariff is slammed on processed palm oil in the EC (Ariff, 1988).

In terms of direct foreign investment (DFI) flows into the focus economies, the Asia-Pacific region also plays a far more important role than the EC. The former accounted for over 70 percent of the DFI in terms of both paid-up capital and fixed assets in Malaysia as of 31 December 1988, which compares very favorably with the EC's one-third share, which, however, is by no means insignificant (Ariff, - 1991). Total EC investments in Malaysia amounted to US $436 million as of the end of 1988, one-fourth of which went into the petroleum sector. In terms of new inflows, the EC figures even less prominently. The EC accounted for only 7 percent of the DFI approved by Malaysia in 1989, compared with the 1982 share of 22 percent.

The EC is even of less importance to Indonesia as a source of DFI in relative terms, as it constitutes less than one-tenth of the total stock. The EC share of DFI in Indonesia had fallen from 9 percent in 1978 to 8 percent in 1982 (Tambunlertchai and Panachet, 1990). However, it appears that in terms of flow, the EC accounted for a larger proportion of the total DFI inflow into Indonesia in 1990 (Table 6). It is, again, the Asia-Pacific region which dominates the DFI in Indonesia both in terms of stock and flow. In particular, Japan and the Northeast Asian NIEs (Taiwan, Hong Kong and Korea) account for the bulk of the total in both Indonesia and Malaysia.

There is very little DFI in Brunei apart from investments in the petroleum sector. The EC involvement in the latter is substantial. In the non-oil sector, DFI is almost nonexistent. The resource and factor endowments of Brunei are simply not attractive for non-oil related foreign investments. Indeed, Brunei is a capital exporter although almost all of its investments overseas understandably take the form of the portfolio variety.

It may be gleaned from all of this that while the EC is still a major trading and investment partner for Brunei, Indonesia and Malaysia, it is by no means a dominant player. The EC's influence in these countries seems to be declining gradually over the years with the emergence of strong Asia-Pacific linkages.

IV. THE SEM IMPLICATIONS

As is well known, the 1992 Single European Market program includes the removal of all legal barriers to the intra-EC movement of goods and factors of production, the lifting of controls on intra-EC transport, abolition of border controls, mutual recognition of standards, fiscal harmonization and establishment of a monetary union. The import of all this for third countries will depend critically on the nature and intensity of bilateral economic relations. A well-diversified economy in terms of both export products and export markets will be affected by such developments much less than one with a narrow specialization and a heavy market concentration.

Indonesia and Malaysia, in particular, have a fairly diversified production base, while their dependence on the EC as a market for exports and as a source of capital is not heavy. Indonesia and Malaysia have, therefore, less cause for concern than many other countries which rely precariously on a narrow range of products that are directed mainly at the EC. The possible displacement of guest workers in the EC resulting from free intra-EC labor mobility after 1992 is of little or no concern to the focus countries. There are no Malaysian or Bruneian guest workers in the EC; even in the case of Indonesia, the number of guest workers in Holland is negligible.

Trade diversion is unlikely to affect the primary exports of these countries, as there are few European substitutes for the Southeast Asian primary commodities. There may be some diversion of manufactured trade from Indonesia and Malaysia to Portugal, Spain and Greece, but much will depend on the level of external tariffs after 1992. Brunei understandably is least worried, as its oil exports are immune to all this. Indeed, the demand for oil imports in the EC should rise after the integration, given the high income elasticity of demand.

The preceding analysis, however, should not be interpreted to mean that the ASEAN countries are unperturbed by the regional integration process underway in the EC. The "deepening" of the European Community under the 1992 SEM agenda and the "widening" of it with more and more countries seeking membership in the EC cannot be treated lightly. In particular, a reorganization of national quotas into a consolidated community-wide set of QRs (quantitative restrictions) could pose severe problems, as this might entail a tightening of restrictions against third-country EC imports (Naya and Plummer, 1991).

Even if trade diversion is not a serious problem for the focus economies, the SEM may divert investments away from these countries. As we have seen, the Asia-Pacific investments in the focus countries are substantial. The chances are that the Asia-Pacific investors will try to gain a foothold in the SEM by investing heavily in Western Europe at the expense of other countries. Such investment diversions would cause economic growth in Indonesia and Malaysia to slow down markedly, given the strong DFI-GDP growth relationship.

One can reasonably expect EC incomes to rise and prices to fall after 1992. The dismantling of barriers within the EC should result in substantial once-off "static" gains in output through better resource allocations. According to the Cecchini Report (1988), which apparently formed the basis of the SEM agenda, such gains will be in the order of 4.5 to 7.0 percent output increase. To this one should add the significant "dynamic" gains through increased investment opportunities and R&D activities. These dynamic gains are expected to generate 1.5 percent incremental output per year. One can also anticipate significant reductions in production costs and, hence, in product prices after 1992, since increasing the efficiency of production and the competitiveness of products is one of the key objectives of the SEM exercise.

The implications are that, on the one hand, EC imports should rise with higher incomes, provided that demand is not income-inelastic and, on the other, some imports will be replaced by EC products due to lower prices even in the absence of any discrimination. The net effect will depend on whether the income effect or the price effect will dominate.

The ASEAN response to the SEM has been mixed. While concerns have been expressed, the positive implications have not been lost sight of. There is no consensus that the EC will be converted into a "fortress" by 1992. It is argued that it is not in the EC's own interest to isolate itself from the rest of the world, as this would have deleterious effects on the dynamism of Western Europe. It is also pointed out that the SEM may not materialize 1992, as there are strong centrifugal forces at work, which means that the SEM will take quite a while to crystallize.

Even if the EC becomes inward-looking after 1992, some observers point out that there would still be significant cost advantages for EC investors in producing some goods outside the EC, as in the case of labor and resource intensive manufactures. In other words, it is most unlikely that EC investors will withdraw from the ASEAN region.

The possible spill over effects emanating from a vibrant EC will also have to be factored in. The SEM is bound to give rise to a new intra-regional speculation and division of labor. This, coupled with deindustrialization in the more advanced EC countries, should create fresh opportunities for third countries, which ASEAN hopes to exploit. ASEAN countries are looking for new intraindustry trade opportunities in the EC, arising from industrial restructuring in the EC under the auspices of the SEM.

If there are going to be significant efficiency gains, as there must be, resulting from a more rational resource allocation, the prevailing rates of protection accorded to the EC industries at present should become redundant. This would mean that there will be less resistance from EC industries to trade liberalization vis-a-vis third countries.

The harmonization of standards, procedures, value-added tax, etc, within the EC should, in a sense, augur well for third countries, as it would be easier to deal with a common set of rules and regulations than **a** multiplicity of them. However, coming to grips with the new sets of rules, standards, norms, and regulations is not going to be easy, and these imply additional transaction costs.

While the prospects of the EC becoming a fortress by 1992 seem far-fetched, there is little doubt that the EC will become increasingly more Eurocentric. The latter scenario seems more probable and more threatening. ASEAN seems more worried about the "widening" rather than "deepening" of the EC. Eurocentricism seems almost inevitable, with more and more Western European countries seeking EC membership and more and more Eastern European nations abandoning their socialist/communist ideology. All indications are that Europe will become so preoccupied with itself that it may have little time for the rest of the world in the critical years ahead.

V. POLICY OPTIONS

The Islamic countries of ASEAN have several policy options to consider in the wake of the changes sweeping across Europe in general and the EC in particular. These include strengthening intra-ASEAN economic cooperation, diversifying its international trade and investment relations, participating in wider regional groupings and forming coalitions with third countries on issues of common interest. To be sure, these options need not be mutually exclusive, and a judicious mixture may well be in order.

Brunei, Indonesia and Malaysia, along with other ASEAN members, now seem inclined to establish an ASEAN Free Trade Area (AFTA). There are indications that the fourth ASEAN Summit scheduled to take place in Singapore in January,1992 will endorse the AFTA idea. There is now stronger political will for closer regional economic cooperation than ever before.

The focus countries are anxious to diversify their product and market base. Indonesia and Malaysia have had some successes in product diversification, but the scope is limited, as they cannot afford to spread their resources thinly over too many activities. Malaysia has been actively seeking new trade outlets in recent years. In this regard Malaysia has been exploring trading possibilities in the countries of the South. However, South-South trade is fraught with difficulties of sorts, as the South countries are even more protectionist than the North countries.

That ASEAN is too small a grouping to have an impact is not lost sight of. Malaysia has therefore proposed the formation of an East Asian Economic grouping (EAEG) comprising ASEAN, the Indo-Chinese states, China, the Northeast Asian NIEs and Japan. The proposal has received considerable international attention, drawing both positive and negative reactions. Regardlessly, the EAEG is increasingly looked upon as a "safety net" or an "insurance policy" for the East Asian countries. There are now signs that the EAEG will be adopted first as a loosely structured grouping in order to keep the "insurance premium" low so that it can be converted later on into a trade bloc should Europe and North America organize themselves into trade blocs. However, heterogeneity may present some problems. The fact that the proposed grouping will comprise market economies along with centrally planned economies may create certain constraints.

Coalition building can help countries air their grievances and complaints in international forums and *negotiations.* The focus countries are members of PECC (Pacific Economic Cooperation Conference) and APEC (Asia-Pacific Economic Cooperation) which are consultative bodies. It is of relevance to note that in the *ongoing* Uruguay Round, Indonesia and Malaysia have joined the Cairns Group that was formed as a lobby against agricultural export subsidy, , and have used the SEACEN (Southeast-East Asian Central Banks) organization in their negotiations on banking services.

The focus countries have yet to explore the "Islamic" option. The Muslim World is large enough to permit mutually profitable trade among the Islamic countries, if they were to form an Islamic economic grouping. There is sufficient diversity of natural and human resources in the Islamic World to have enormously complementary and symbiotic relations. The possibilities are almost infinite. There is little doubt about the feasibility, desirability and viability of organized economic cooperation among the Islamic countries. The time is ripe for the OIC (Organization of the Islamic Countries) to broach the subject with its members. Brunei, Indonesia and Malaysia, which have considerable experience in regional economic cooperation, should be able to contribute much to Islamic cooperation efforts.

Table 1

Basic Economic Data, 1990

	BRUNEI	INDONESIA	MALAYSIA
- Area (sq. km.)	*5,765*	1,904,345	329,293
- Population (mil.)*	0.250	178.25	17.40
- Real GDP growth (%)	2.5	7.0	9.4
- GNP per capita (US $)	15,390'	470'	2,277
- Inflation (%, 1990)	2.0	6.5	3.2
- Current Account BoP (US $ mil.)	1,500	- 1,900	- 1,238
- Balance of Trade (US $ mil.)	n.a.	5,770	635
- Gross International	n.a.	4,693	7,783a
Reserves			
- Debt servicing ratio (%)	-	29.9	7.8
- Total External Debt (US $ bil.)	n.a	52.9	14.9
- Growth Saving/GNP (%)	n.a	31.7°	30.4
- Gross Fixed Capital Formation	n.a.	31.9°	35.2

Source: Ministry of Finance, Malaysia, *Economist Report 1990/91,* Kuala Lumpur, 1990, Appendix Table 1.2.

a = 1989 b = 1987 c = 1988

Table 2

Structure of Exports of ASEAN Countries 1970 and Later Years

(Percentage of total exports')

Commodity Group	Brunei 1970	Brunei 1985	Indonesia 1970	Indonesia 1985	Malaysia 1970	Malaysia 1985
Primary commodities	97.4	98.8	98.6	69.9	92.8	57.0
- Agricultural and food products	0.9	0.2	19.6	12.0	12.6	15.8
- Raw materials	96.5	98.6	79.0	57.9	80.2	41.2
Manufactured goods	2.4	1.2	1.2	30.1	6.3	42.7
- Chemicals	0.5	0.1	0.5	2.3	0.7	2.2
- Resource-based manufactures	0.0	0.0	0.0	14.3	2.6	3.5
- Textile	0.0	0.0	0.2	3.9	0.4	1.2
- Metal manufactures	0.3	0.1	0.0	0.4	0.2	0.5
- Nonelectrical machinery	0.9	0.7	0.3	0.1	0.7	2.8
- Electrical machinery	0.0	0.1	0.0	0.6	0.3	23.5
- Transport equipment	0.2	0.1	0.0	0.2	0.6	0.9
Furnitu	\ 0.0	0.0	0.0	0.7	0.0	0.3
- Clothing	0.0	0.0	0.0	5.3	0.3	3.9
- Footwear	0.0	0.0	0.0	1.0	0.1	0.2
- Precision instruments	0.2	0.1	0.0	0.1	0.1	0.9
- Miscellaneous manufactures	0.1	0.0	0.0	1.2	0.3	2.7
Total exports (US $ million)	95.4	2,972.0	1,055.1	21,772.9	1,686.6	21,109.7

Source: United Nations, Commodity *Trade Statistics*, *various* issues.

Note:* The categories of manufactured exports may not add up to total manufactured exports since not all categories are listed. Manufactured plus primary commodities may not add up to 100 since SITC 9 is excluded.

Table 3

Manufacturing Sector Contributions to GDP

(percentage)

	BRUNEI*	INDONESIA	MALAYSIA
1975	N.A.	8.9	16.4
1980	83.3	11.6	19.6
1985	69.4	13.6	19.7
1986	52.8	14.2	20.9
1987	52.4	13.9	22.5
1988	45.4	N.A.	24.2

Source: *Key* Indicators of Developing Member Countries, various issues. *
includes mining and quarrying

Table 4

Total and Manufactured Exports by Destination

	Share of exports by destination (%)						Share of manufactures in exports (%)					
	Indonesia			Malaysia			Indonesia			Malaysia		
Importer	1970	1980	1989	1970	1980	1989	1970	1980	1989	1970	1980	1989
- Australia	3.4	1.5	1.8	2.2	1.4	2.5	2.5	3.7	29.5	4.8	32.3	40.3
- Japan	33.3	49.3	42.7	18.3	22.8	22.2	0.2	0.4	16.4	2.1	5.0	13.6
- USA	14.0	19.6	16.0	13.0	16.3	21.4	0.6	1.8	35.6	6.2	48.9	84.1
- Northeast	2.4	3.7	9.2	5.1	5.7	7.6	1.5	11.1	45.8	5.7	20.6	58.6
Asian NIEs	27.0	11.9	10.1	24.8	21.5	30.1	1.5	9.4	40.6	12.8	18.1	58.0
- Other ASEAN1												
- EC	16.1	6.3	10.6	19.3	16.9	13.0	2.7	9.8	40.8	4.0	23.4	54.8
- Others	3.8	7.7	9.6	17.3	15.4	3.2	1.2	3.0	32.0	12.8	19.6	53.0

Source : Ariff and Tan (1991)

Notes : 'Excludes Brunei

Table 5

Manufactures: Export Trade Intensity Indices and Intraindustry Trade Indices by Major Trading Partner 1970, 1981 and 1989

	Export Trade Intensity Indices						Intraindustry Trade Indices					
	Indonesia			Malaysia			Indonesia			Malaysia		
Importer	1970	1981	1989	1970	1981	1989	1970	1981	1989	1970	1980	1989
- Australia	1.8	1.4	1.0	1.2	1.7	1.1	0.6	4.4	11.8	8.8	30.1	22.1
- Japan	2.8	2.5	4.8	2.1	2.3	1.2	0.4	0.9	9.4	1.0	7.6	20.4
- USA	0.7	0.8	1.0	0.8	2.5	1.8	0.3	1.5	6.2	3.3	60.5	60.5
- Northeast Asian NIEs	1.6	3.6	2.1	2.1	2.4	1.3	0.3	7.1	24.4	10.5	27.3	40.7
- Other ASEAN1	13.9	10.3	3.0	21.1	6.8	7.8	6.8	27.9	25.5	45.6	75.3	61.4
- EC	1.1	0.5	0.4	0.4	0.6	0.3	3.2	2.9	8.0	4.0	24.6	37.6

Source : Ariff and Tan (1991)

Notes : 'Excludes Brunei

Table 6

Percentage Distribution of Investments, 1990

	MALAYSIA	INDONESIA
Japan	28.5	25.7
NIEs	47.8	29.3
Hong Kong	2.2	11.4
S. Korea	2.6	8.3
Singapore	5.2	2.5
Taiwan	37.8	7.1
Europe	8.3	13.5
US	3.0	1.8
World Total	100.0	100.0

Source : Tan et. al. (1991) Table 12.

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COMMENTS

Abderrasoul Lehadiri*

Starting from the fact that in three out of the six ASEAN countries a majority of the inhabitants are Muslims, Professor Ariff takes a bilateral approach giving precedence to the relations and connections that each of these countries has with the EC. The procedure starts from a survey of economic structures and their evolution as well as that of economic policy in order to analyze, subsequently, the connections which bind those economies to the Community. These connections are examined in terms of commercial flow and the flow of direct foreign investment (DFI).

The influence of the EC on the three Muslim ASEAN countries appears weak in comparison to the preponderant and growing influence of the dominating poles of Asia-Pacific, namely, the United Stated, Japan and the new industrialized countries (NIC) of Asia. Trade between ASEAN Muslim countries and the EC is less intense than trade with the dominating poles of Asia-Pacific and is declining. Even if manufactured products exported to the EC show a notable increase (especially the intraindustry trade), the structure of the exports to the EC still remains dominated by primary products. The same applies to the flow of DFI in which the Community, in spite of being an appreciable investor, is less important that the Asia-Pacific region whose domination is growing.

Professor Ariff's analysis suggests that relations between ASEAN Islamic countries and the EC are governed by four intervening factors:

1. History, through colonization, has shaped economic structures dominated by primary production and complementary exchanges of primary products for manufactured goods. These are structural features which are difficult to alter.

2. Geography in terms of geographical remoteness/proximity plays an important role. In particular, geographical remoteness is likely to render prohibitive large quantities of exports of finished products.

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3. The world environment and configuration have seen the progressive rise of dominating poles other than the EC, namely, the United States, Japan and the NICs of Asia.

4. Finally, there is the policy of loosening the vis which Professor F. Perroux calls the hold of structure and which expresses itself through the diversification policy of the internal production of partners and of exports.

In short, in spite of historical ties, the intensity of relations between ASEAN Muslim countries and the European Community has suffered from geographical remoteness, the rise of new dominating poles (USA, Japan, NICs of Asia) which benefit from geographical proximity and, finally, from the policy of diversification of states which seek to reduce the hold of strucutre.

The repercussions of the creation of the Single European Market depend on the nature and the intensity of bilateral economic relations. We understand why the author did not analyze the migratory flows which, in contrast to the Maghreb, are minimal for Indonesia and practically nonexistent for Malaysia and Brunei.

The effects of trade diversion for the exports of the primary products of ASEAN Muslim countries the EC are practically nil because of the absence of European substitutes. However, we cannot say the same thing about trade diversion for Malaysian and Indonesian manufactured products whose volume depends on the common trade policy of the Community. The diversion which we must beware of is at the level of DFI flows, because the creation of a Single Market would lure investors from the Asia-Pacific area at the expense of ASEAN Muslim countries. The latter might inevitably suffer from a substantial decline in their economic growth because of the strong correlation between DFI coming mainly from the Asia-Pacific area and the growth of GNP.

The completion of the Single Market will also generate a revenue effect (growth of extra-Community imports because of the economic growth brought by the renewed vitality of the EC) and a price effect (a decrease in costs and, therefore, in prices) which will be unfavorable to third countries even without discrimination. The net impact will depend on which of the two effects prevails.

The author shows that ASEAN countries seem fearful of the possible enlargement of the EC to other Western European and even Eastern European countries and of an inward-looking Europe refined within itself and with a lack of interest in underdeveloped countries.

In conclusion, the author explores the political options offered to ASEAN countries ranging from the reinforcement of intra-ASEAN economic cooperation to the forming of larger economic groups and including the diversification of external relations and the formation of coalitions with third countries in fields of common interests.

Professor Ariff's analysis is clear and comprehensive and will draw from me only the following remarks:

1. Professor Ariff has indicated that the exports of ASEAN Muslim countries have suffered appreciably, since the crisis, from the EC's tendency to reinforce protectionism, especially in low technology sectors such as textiles, garments and shoes. This protectionism stems from the slow growth and the high unemployment. However, Professor Ariff has not sufficiently underlined an indirect effect of the completion of the Single Market, which is a political economy effect. The abolition of barriers inside the Community should set in motion structural changes and contribute to actively relaunching economic growth. Such an atmosphere of economic growth would reduce unemployment in the EC and, consequently, the demand for protectionism. In this case, we can reasonably expect that the advent of the Single Market will act towards the promotion of a less protectionist and more open Community commercial policy from which the exporters of ASEAN Muslim countries will benefit.

2. Professor Ariff has not specified the impact of the abolition of each of the main barriers to trade inside the Community on ASEAN Muslim countries, namely frontier controls, technical barriers and subsidiaries or closed public markets. It is needless to consider the last barrier whose elimination will have no effect on ASEAN Muslim countries since they do not have subsidiaries or firms which might benefit from the opening of public markets.

However, the other two should not be neglected.

Although the Treaty of Rome guarantees the free circulation of merchandise inside the EC, whether from member countries or third countries, it is possible for a member country, by virtue of Article 115, to ask the Community to suspend this free circulation of goods from third countries in order to preserve the efficiency of the quantitative restrictions which that member country imposed on those countries prior to its joining the EC and which it has maintained. The application of Article 115 is linked to the frontier controls between member states. Their dismantling by 1992 will de facto render void Article 115 and will require member states to adopt a unified position concerning quantitative restrictions. Consequently, the effect of the abolition of customs controls on trade with ASEAN Muslim countries will depend on the EC's future commercial policy. Either, it will abandon the present system of national quotas and Malaysia and Indonesia will benefit, or it will set up a single quota at the level of the Community and, in this case the abolition of physical frontiers will not have any important effect on ASEAN Muslim countries. On this point, Professor Ariff has only briefly called to mind the reorganization of national quotas in the framework of all the quantitative restrictions established at the level of the EC.

As regards the repercussions of the abolition of technical barriers, the Single Act advocates the principle of mutual recognition of national rules, except for regulations concerning health and security. This means that the products of a third country which satisfy the norms of a member country of the Community and which are consequently commercialized in that country must have free access to the markets of other member states without having to conform to their own norms. Consequently, the manufactured goods of Indonesia and Malaysia do not need to satisfy the dissimilar norms of the different member states, but only those of one state (Holland, for example) in order to be admitted to the markets of all the other members. This will enable the two countries to increase their exports by satisfying the norms of only one country.

However, the increase in the exports of manufactured products of these countries might be less important or even canceled in two possible situations. The first is where the principle of mutual recognition does not extend to direct imports but remains valid solely for indirect imports, which means that Malaysian and Indonesian products, for example, will have access to the Community market only via the Dutch market and their direct access to other markets will be prohibited as long as they do not satisfy their norms.

Consequently, the prices of these products will be encumbered - due to this transit - with transport costs, which will further reduce their competitiveness. The second situation is one in which the Community might set up strictly harmonized health and security norms, with which it would be difficult for underdeveloped countries to conform.

In conclusion, the impact of the dismantling of these two main barriers on the trade of ASEAN Islamic countries will closely depend on the trade policy which the Community adopts. Malaysia, Indonesia and Brunei, along with other ASEAN partners, must rely on the power of negotiation to extract concessions from the EC.

13

THE IMPACT OF THE EC SINGLE MARKET ON WORKERS OF OIC COUNTRIES

Selim Ilkin*

I. INTRODUCTION

The development of a Single Market after 1992 leaves many people who come from outside the European Community bewildered. Perplexity and, indeed fear, can be sensed at the level of both the authorities of nonmember states and their citizens working and. living within the Community. Such sentiments are not surprising. Knowledge about the future situation of non-EC citizens within the EC is almost nonexistent, and the questions involved are imprecisely perceived, thus leading to speculation and fear.

The main purpose of this paper is to provide a clearer picture of post-1992 EC developments with respect to the rights of migrant workers already in the EC, as well as the future migration to the EC from non-EC countries, with special reference to those from the OIC Community.

II. RIGHTS OF THE MIGRANT WORKERS ALREADY IN THE EC

1. The Single European Act of 1985 is designed to realize the internal Market, i.e. "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured..." (Article 8a of the EC Treaty). It is generally accepted that the controls at the borders of each member state will be abolished for Community citizens. Matters relating to the free movement of persons remain subject to the unanimity rule (see Article 100a, para. 2, which exempts this subject matter from the rule of qualified majorities in Article 100a, para. 1). It is not intended to extend the freedom of movement for workers, entrepreneurs, etc., to noncitizens of the

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Community, although this is not ruled out by the wording of the Act. For the time being, the governments of the member states have agreed:

a) "to co-operate, without prejudice to the powers of the Community, in particular as regards the entry, movement and residence of nationals of third countries",

b) that "nothing in these provisions (of the Single European Act) shall affect the right of member states to take such measures as they consider necessary for the purpose of controlling immigration from third countries, and to combat terrorism, crime, the traffic in drugs and illicit trading in works of art and antiques".

It might be taken as a reflection of the ominous atmosphere vis-a-vis migrant labor that it is being classified within the same package of undesirables as terrorism, crime, drug traffic and contraband goods.

2. Therefore, for third-country nationals, 1992 conjures up uncertainties and conflicting perspectives. It is unclear as to whether their fate will be ruled by the national policies of the countries in which they have settled or whether a Community-wide policy will supplant the existing policies or coexist with them. If the EC were to adopt a common policy on immigration, would it come close to the most advanced national policy in existence or would it represent the lowest common denominator? And would it not hollow out bilateral migration relations in which the non-EC party enjoys some leverage? The declarations annexed to the Single European Act leave third-country immigration matters firmly in the hands of each EC member state, yet they do not close the door to cooperation in this field. This reflects the position taken by the Court of Justice of the European Communities when, in July, 1987, it annulled an ambitious decision by the EC Commission to develop a Community policy on migration. One might expect that the interplay of needs and opportunities would, over time, lead to a situation where the Community would not be able to afford the luxury of having no common policy toward third-country nationals.

At the very most (depending on what may develop out of the Schengen Agreement (France, Germany and Benelux), and if this agreement were to be extended to include the entire "Twelve") the third country nationals will be allowed to move about without hindrance and without a visa requirement for a period not exceeding three months. However, this freedom of movement within EC member states would not entitle a worker from a third country to seek employment or to take up residence in another EC member state. Thus, a Moroccan worker who is regularly employed in the Netherlands will be allowed to travel to Germany to visit friends or relatives, for example, without needing a visa, and during the period in which he is authorized to remain in the latter country (or any other Community member state), he will not be permitted to work. The logic of the Schengen Agreement is not to institute a single labor market, but to facilitate infra-Community movements and exchanges, while for the present retaining a plurality of national markets.

3. The problems are further exacerbated by the fact that some EC countries have not yet ratified the ILO and U.N. conventions concerned with migrant workers. For example, the first major ILO standard designed to protect migrant workers, the Migration for Employment Convention (Revised 1949 n° 97) has been ratified only by eight member states. Another major convention on Migrant Workers (Supplementary Provisions, 1975 n° 143) has been ratified by only two EC member states. Therefore, migrant workers in the EC are vulnerable to changes in legal systems in the member countries.

4. Another important area in which where the lack of unifed rules is causing a great concern is the access of migrant workers to public sector jobs. Public sector employment comprises a considerable portion of the EC's labor market : close to one-fifth of all jobs. One relevant differentiation of public sector jobs is between those that are sensitive in terms of policymaking and those that are not. The former constitute a small minority of jobs, which governments for domestic and foreign policy reasons, reserve for nationals- an entirely legitimate concern. However, the varying practices pursued in EC member states have the effect of barring a more or less significant portion of EC citizens and third country nationals from non-sensitive public sector jobs. This is, like any measure of durable protection, economically unproductive and wasteful. Not only can general skills, talents and abilities not bear fruit in the public sector, but the special advantages that nonnationals have will remain unused. There are many workers from third countries already employed in the public sector in European countries. But most of them tend to perform ancillary tasks, for example, in street maintenance and cleaning, public transport, health care, etc. The principle of equal treatment ought to be applied to these workers, by avoiding a situation in which they are recruited into the

public sector only at the lower end of the occupation ladder to do the low-paid, menial jobs that the nationals refuse to take. Furthermore, it is also important to maintain the security of employment traditionally associated with the public sector in the majority of European countries. Opening this sector to immigrant workers should not be used as a pretext for the proliferation of unstable and insecure employment contracts and the undermining of acquired rights.

5. Another area, which the rules related to the Single Market have not touched upon, is family reunification in the case of migrant workers.

The principle that the family is to be protected by society and the state can be considered to be part of customary international law. The two UN Covenants, namely the Covenant on Civil and Political Rights and the Covenant on Economic, Social and Cultural Rights, have been ratified by all EC countries. In some countries, France, for example, it is a constitutional right. In practice, however, there are certain restrictions resulting either from excessively lengthy procedures and other administrative conditions affecting the arrival of families, such as housing, employment, etc. In most EC countries the above mentioned UN Covenants, that the family is a natural and fundamental unit of society and is entitled to protection by society and the state, have been put into practice by requiring that the nonnational who wishes to be joined by a family member be employed in a full-time remunerative activity and have acquired adequate accommodation that must be officially certified. This has worked to the disadvantage of the migrant because of the prevalent housing shortage in Western Europe. The housing requirements, which migrants must meet before they can think about asking their families to join them are very restrictive. A family of three children is required to have an apartment of 105 sq.m: 60 m for the couple and 15 sq.m for each child. Migrants usually have large families, and, therefore, finding and being able to pay the rent on a large house is an important limitation. It is clear, therefore, that family reunification for migrants is a de jure right, but de facto it is not implemented by EC countries.

III. FUTURE MIGRATION TO THE EC FROM NON-EC COUNTRIES

1. In the European Community and the member states the immigration of manpower constitutes a factor of labor market policy. The decisions in this field do not always result from economic considerations or

employment objectives; they also derive from considerations of international solidarity, notably in the context of development aid, or they are based on social and humanitarian grounds, as is the case with political refugees and asylum seekers. Demographic considerations do not influence today's immigration policies to a large extent.

2. The Commission's report "Employment in Europe 1989" indicates that the achievement of the Single Market, after a slight reduction at the beginning, will have a substantial positive effect on employment levels in the medium and long term. The Cecchini report estimated that the abolition of nontariff barriers could reduce costs considerably and boost growth by 306%, with perhaps 1.8 million additional jobs to be created over six years. However, it is unlikely that this growth would be equiproportional throughout the EC. It would favor certain sectors and regions more than others. Furthermore, these effects will be unequally distributed among regions and different sectors. Agriculture will continue to lose workers; manufacturing industries will make slight gains; and services will grow to such an extent that the overall balance will be positive. Such an evolution will have an impact on skill levels in a way that ordinary skill requirements will remain important and that the supply of jobs requiring less skills may exceed the supply of jobs for qualified manpower. Another positive growth factor is expected to be German unification, entailing the integration of the territory of the German Democratic Republic into the EC by 1993. According to a recent assessment by the Commission, this could boost total growth in the EC by up to 0.5% (The Times, 21 April 1990).

At the turn of the century, demographic considerations could conceivably play a role and complement or replace the economic regulation of immigration from within the EC or from without, especially in countries such as Germany where population decline is now a trend. As the recent issue of "Employment in Europe 1990" and a comprehensive study by Hugues de Jruvenel on Europe's ageing population clearly indicate, the Community has experienced a significant growth in the numbers of young people coming into the labor market. This era (the aftereffect of the post-war baby boom) is now at an end. In the 1990s and beyond, the prospect is for the number of young people entering the labor market to decline each year. Since women in the Community are tending to have fewer children as time goes on, this decline seems likely to continue well into the next century. Whereas young people aged between 15 and 24 now represent around 23% of working-age population in the Community, by the year 2025, at present trends, this proportion will have declined to only 18%.

At the same time, as fewer people are coming of working age, the average age of the rest of the labor force is rising as the people who first started working over the past ten years grow older. At present, some 16% of people of working age are 55 years old or more. By the year 2025 this proportion will be 22%. At that time, *55%* of the Community's working-age population will be over 40 years old as compared with less than *45%* today.

One important implication concerns the difficulties created for improving the skill level of the work force. In the past, improvements in the quality of labor have come, in large measure, from recruiting young people with more knowledge and understanding of science and technology than the previous generation. This option will be less open in the future.

However, trends in the working-age population only give a first approximation of the Community's labor force in future years. What happens to the size and age-structure of the work force in the long run depends also on other factors- trends in migration and changes in technology and in participation rates.

3. Immigrants have come to Europe from many parts of the developing world. It is nevertheless worth looking more specifically at the demographic and labor market aspects of the Community of 12 and the 14 countries on the southern shores of the Mediterranean. Table I below shows very marked differences in anticipated changes between 1990 and 2000.

Of the expected population increase in Europe and the Mediterranean between 1990 and 2000, 95% will be located on the southern shores of the Mediterranean and 5% in the European Community. There is virtually no uncertainty about this outlook : in 1990 the proportion of persons under 15 in the total population is about 18.5% in the EC against 37.5% in the southern Mediterranean, with obvious repercussions on the birth rate and the rate of newcomers to the labor market.

Total increase in, the labor force in the nonagricultural sectors is estimated at 4.6 million for the Community as a whole and 21.7 million for the southern shores of the Mediterranean (Table 1). This means that Turkey and.

Egypt alone would need to create 880,000 new jobs each year for ten years to cope with the additional supply of labor. It, therefore, needs to be stressed, beyond any other consideration, that the smaller, the labor force, that the southern Mediterranean (and more generally the southern world) can absorb, the stronger will be the social tensions, the political pressures and the drive to push out additional new emigrants, who will be bound to turn to Europe as their preferred destination, whether through lawful migration, back-door entry or clandestine migration.

Table 1

Population and Labor Force : Situation in 1990 and Expected Increase during the Years 1990-2000 (In Millions)

	EC			Southern Mediterranean (a)	- Southern Mediterranean (a)	
	Value 1990	**Increase Million**	**%**	**Value 1990**	**Increase Million**	**%**
Population						
- Total	**340.5**	**+2.4**	**+0.7**	**245.0**	**+49.6**	**+20.2**
- In major cities (b)	**40.6**	**+1.8**	**+4.3**	**30.4**	**+11.7**	**+38.5**
Labor force						
- Total	**153.3**	**+1.0**	**+1.0**	**82.4**	**+22.4**	**+27.2**
Nonagricultural	**144.1**	**+3.2**	**+3.2**	**51.1**	**+21.7**	**+42.4**

(a) **Yugoslavia, Albania, Malta, Turkey, Cyprus, Syria. Lebanon. Israel, Egypt, Sudan, Libya. Tunisia, Algeria, Morocco.**

(b) **The capitals, with the exception of Germany (East Berlin + West Berlin) and Morocco (Casablanca).**

Sources: **a) Total population . UN forecasts, 1989 (low variant).**
b) Population in major cities : UN forecasts, 1989.
c) Labor force : UN + **ILO forecasts, 1988.**

Commission of the European Communities, Policies on Immigration and the Social Integration of Migrants in the EC, Brussels, 1990.

4. Furthermore, recent years' political events in Eastern Europe and the resulting liberalization of movement of people have added a further dimension, not only in terms of the effect on the labor market of some EC countries, but also by generating more and more applications from the countries of Eastern Europe. The question of knowing what may happen in the coming

years migration flows from Third World countries to the EC should be considered in the context of the present upheavals taking place in Europe. The opening up of Eastern European countries has turned everything upsidedown. It is difficult, therefore, to make any serious forecasts about the future. All that can be said is that there is no case for pursuing population policies in Europe based on what one believes to be the demographic contribution of immigration. Such a contribution -low enough for the moment- could not by itself justify the opening up of European countries to new immigration flows.

5. The current rise of xenophobia (due in part to the inflow of ethnic Germans from European socialist states and the continuing high numbers of asylum seekers) does not augur well for a demographically inspired opening of borders; and the projections of the Nuremberg Institute fur Arbeitsmarktund Berufsforschung indicate that demographic developments will lead to an equilibrium in the labor market by the year 2005, but not wipe out unemployment or call for immigration on economic grounds. In the long run, after 2015 and beyond, the EC will probably again face labor shortages. However, the number of such job opportunities will definitely be more than the amount of excess labor that the Third World countries (including the Eastern European countries) would be ready to supply.

6. At the present stage of freedom of movement for workers, a member state's recourse to manpower from non-EC countries is tied to the lack of available workers with the requisite skills who are willing to accept the job offered (Community employment priority). The proposals concerning the revision of the provisions governing freedom of movement do not foresee to change this rule. Furthermore, if the suggestion to extend freedom of movement to non-EC citizens who have lawfully resided for two years in any member state was realized, the employment priority would also benefit any third country national fulfilling the condition. This would be difficult to accept, and indeed it would be contrary to the very notion of a Single Market if a member state recruited labor outside the European Community without taking into account the situation in other regions of the Community. Moreover, such an extension of the freedom of movement would be unfair to those qualified non-EC workers who are unemployed and looking for work.

7. Equally important are existing or possible future commitments of the European Community in the context of association or cooperation agreements with third countries, where they establish an employment priority

for nationals of the contracting parties over those of other non-EC countries. (Appendix I).

IV. THE OIC COMMUNITY AND THE SINGLE MARKET: SOME OBSERVATIONS

1. Of a total population of approximately 320 million in the member states of the EC (not taking into account the recent unification of Germany), foreigners account for some 12.6 million or 4% of the total. This figure, includes Community citizens exercising their right to freedom of movement.

Thus, if we consider only those who are third country nationals that lawfully reside on Community territory, and who are not citizens of a member state, the foreign population can be put at some 7.8 million, i.e. 2.4% of the population.

These figures, however, exclude all those immigrants and their children who have already acquired the citizenship of a member state. Thus, for example, the ethnic minority population of the United Kingdom, the majority of whom are British citizens, is about 4.5% of the total population, although only 1.8% of the population consists of non-Community nationals.

It would be wrong, though, to think that the problems of full integration concern only the non-Community nationals and not a large number of those who have already acquired citizenship of one of the member states.

A total of 7.7 million non-EC nationals are presently working in the Community. Out of this, 4.4 million are from OIC countries. In fact, the OIC figures underestimate the actual number of immigrants from Islamic countries, due to the lack of such data for some OIC countries. Despite this fact, it is noted that nationals from OIC countries constitute 35% of total migrants and 56% of non-EC immigrants (Table 2). Turkey, Algeria and Morocco happen to be the three largest suppliers of immigrants to the EC.

The EC is not only an important area where OIC workers have found jobs, but, through their remittances, it is a very important foreign exchange source for migrant countries (Table 3).

2. It is clear that the provisions of the Single Market are meant for EC nationals. For Third World workers a genuine Single Market, thus, appears to be a distant objective. The maintenance of 12 national policies for non-EC workers has the effect of confining a considerable part of the EC's labor force in 12 segregated markets and thus conflicts with the very goals of the Single Market. On the other hand, it is undeniable that a dual status between Community and non-Community citizens already exists, and the developments summed up by the notion of 1992 tend to reinforce this duality unless certain corrective measures are taken.

3. The breakdown by age and sex of the member states' populations is quite different from that of immigrants, especially that of workers from OIC countries. The latter include vast numbers of young people with very few middle-aged or elderly people. There are also marked imbalances between the sexes, with a preponderance of males or females according to the immigrants and the rest of the population may, together with cultural differences, constitute a further barrier to the process of integration. As indicated in a recent report of the Commission (Appendix II), a large Islamic community that is larger than the community originating from OIC countries also faces certain problems of integration and representation.

4. OIC institutions and subsidiary organs should not confine their activities within OIC boundaries, but should also study the problems of Islamic communities in the EC, as well as in the rest of the world.

5. Demographic pressure from poor countries remains, without doubt, one of the major problems of our times and its consequences extend far beyond the scope of migration. Neither an increase in influx nor the complete opening of frontiers can be regarded as remedies for excessive population growth.

The basic overall solution in the long run will have to comprise the development of new forms of cooperation that will involve large scale aid and concerted assistance directed to these countries, a sort of Marshall Plan, to enable them to control demographic expansion and, therefore, migration. The common management of migratory flows in the short to medium term may also be considered one of the components of an overall cooperation policy.

Table 2

IMMIGRANTS IN THE EC FROM- OIC MEMBER COUNTRIES . (PERSONS)

	Belgium 1988	Denemark 1988	Finace 1962	Germany 1988	Greece 1988	Ireland 1988	Italy 1988	Laxemboerg 1988	Not r b a i 1988	Pmepl 1988	SA*, 1987	UK 1985-87	Total
Total Pcpnlotio.	9,772,000	3.097.000	33,651,000	60,339.000	9,739.000	1,479,000	36,496,000	363,000	14,333,000	10,211,000	38,642,000	34216,000	. 318.392,00 0
Tad Employment	3,483,000	2.643,000	21,705,000	24999.000	3,657.000	1,091,000	21,101,000	152,000	3,910,000	4,453,000	11,709,000	23,660,000	126,407,000
Totd Immigrants	$38,650	136,177	3,610,100	4,469,103	214641	83,300	293,p6		391.$47	94,433	333.736	1,783,000	12,365,661
ham EC	336.836	24873	1.377.900	1.275.838	107.781	66,400	89.81		156.901	23,296	193.312	766,000	4,823.003
Sam NmsEC	321,814	109,3902	2,102.200	3,213,247	106,860	17,100	206,012		434,916	69,137	110,424	1,019,000	7,742,062
of lohid O1C	222,972	33,413	1,339.980	1,602,444	33.118		62,266	430	3.000.629	3.127	35.394	546,000	4,362,265
Alsmu	10.092	307	763,9250	3.069	177		1,341		616	24			813.346
Benesldsh												117,000	117.000
E					2.413		11,016						13.431
Oaks-Biro										3.021			3,021
Sum		6,000			1,900		3,900	430					12,250
)mba							16.301						16,301
Monroco	128,566	2.461	431,120	32,069	219		13,730		130,094	47	33,144		793,470
Tmmiaia	3.8$1	224	189,400	21.623	262		11.933		2,394	13			231,953
Tufty	78,433	24,425	123,340	1,323.67	30,143		1,807		167.323	22	240	14000	1.963.613
Akio .												413.000	413,000
% of 01C 1=4p.ata l . ova-EC	69	31	73	30	32	0	30		69	3	23	34	36

Table 2 (continued)

	1988	Denemark * 199$	Pnaa 1982	Onstage 1986	O, 1988	Inland 9988	Italy 1988	L boa6 1988	Ntkad.sds 1988	Pmtagd 1988	Spin 1967	198347	Thal
% of 01C Imarigata la ooh!	26	25	42	36	16	' 0	21 , -		31	3	1l	31	33
Share of 01C Imaupata is Trial I%)	6r	1.2	7.2	3.9	1.0	00	0.3	3.1	0.1	0.3	2.1	3.4	

Source: - Commission of the European Communities, Social Europe, Supplement 1/1991. -

Eurostal, Demographic Statistics, 1990.

- Commission of the European Communities, The Social Integration of Third Country Migrants Residing on a Permanent and Lawful Basis in the Member Countries. June. 1989.

Table 3

Workers' Remittances of the Selected OIC Countries

(In $ Million)

Country	1987	1988	1989
Algeria	405	326	
Egypt	3604	3770	4254
Morocco	1571	1289	1325
Tunisia	479	538	483
Turkey	2021	1776	3040

Source : IMF, *Balance of Payments Statistics, 1990,* Vol. 41.

APPENDIX I

INTERNATIONAL AGREEMENTS

BILATERAL AGREEMENTS

The manpower agreements all date from the period when there was a shortage of manpower and were concluded between:

a) Belgium and Algeria, Morocco, Tunisia, Turkey
b) Germany and Morocco, Tunisia, Turkey
c) France and Algeria, Morocco, Tunisia, Turkey
d) The Netherlands and Morocco, Tunisia, Turkey.

These agreements govern above all recruitment procedures and collaboration between manpower services, and enshrine the principle of equal treatment as regards employment and remuneration.

In some cases, they govern the status of the workers in question, especially in Belgium, where the rapid elimination of restrictions on employment, as agreed, has been incorporated in the regulations. In some cases, these agreements provide for more favorable conditions as regards vocational training and the right to bring family members into the host country (Belgium, France).

Denmark belongs to the Scandinavian area of free movement of persons comparable to the intra-Community system of freedom of movement. Agreements on the freedom of movement of persons concluded with former colonies (such as Mali, Senegal) are not taken into account.

AGREEMENTS BETWEEN THE EC AND THIRD COUNTRIES

1. At present, the situation of Turkish workers and family members authorized to join them is governed by the provisions of Decision 1/80 of the EC-Turkey Association of 19 September 1980.

The decision provides for the following:

A) The gradual elimination of restrictions on the employment of Turkish workers on the legitimate labor market (total elimination after a worker has been in employment for four years);

B) Access to employment for members of the worker's family who are living under his roof (after three years' residence subject to the priority given to EC workers; after five years free access; children who have been educated in the host country have free access if one of their parents has worked there for three years);

C) Admission of children to general education, apprenticeship and vocational training on the same terms as nationals, the award of grants remains at the discretion of the member states;

D) A prohibition on any new restrictions as regards the conditions of access to employment for Turkish workers and their families in a regular situation on the labor market of the member states.

The decision is silent on the matter of family reunification, which therefore falls within the scope of the national legislation of the member states in question.

2. Cooperation agreements between the EC and the Maghreb countries (Algeria, Morocco and Tunisia) and between the EC and Yugoslavia. These agreements, which came into force in 1978 and 1983 respectively, confirm the member states' undertaking not to discriminate on the basis of nationality as regards the working conditions and terms of remuneration of the workers in question employed in their territory.

3. EC-ACP Convention (Lome II)

The Convention confines itself to two declarations appended to the Convention (IX and X). They concern respect for basic freedoms and equal treatment as regards working conditions and remuneration for workers of the contracting parties working on the territory of another contracting party.

APPENDIX II

Excerpts from the Commission of the EC., Policies on Immigration and the Social Integration of Migrants in the European Community, Brussels, 28 September 1990, pp. 33-34.

"ISLAM"

'One-third of all immigrants in Western Europe are Muslims, two-thirds in the case of non-EC nationals. Different strands of the Islamic region are involved (Shiite, Sunni, Allewite, etc.) and different nationalities (in the main Algerians, Bangladeshis, Moroccans, Pakistanis, Tunisians, Turks and Yugoslays). Some of these strands are more "traditional" -as we would put it-than others.'

In principle, all that we have said in our report about the integration of immigrants applies to these large Muslim communities as to others. Integration respects the other's culture in terms of religion and of language, while enabling him to partake in the social, economic and institutional structures of the host society.

It follows from what was said above that central and local government need to promote the participation of the Muslim communities in the political process and in the decision-making that effects them.

This is not a straightforward task, partly because the position of the religious or political leader within the Islamic tradition is very different from that in our secular democratic society with its representative bodies. It is often necessary for dialogue to take place with a variety of different people among the various Muslim communities.

In some countries, the authorities disown this question, pointing to the principle of religious liberty. In others, there is a strong desire for the Islamic communities to be represented and for an institutionalized dialogue with them. The practical arrangements, though, are not always easy, with the external manifestations of Islamic identity (e.g., mosques and specifically Islamic events) tending to be factors of division and intolerance.

The example of the United Kingdom, where Muslim representatives are now found on local councils, shows that participation is valuable, but also that is not sufficient by itself. As we have argued above, education and training is one of the keys to integration, and we include the education of the national as well as the immigrant population. Education and learning is a two-way process, and it needs to be said -firmly but with sensitivity- that integration involves mutual respect and understanding.

Our visits confirmed that it can be difficult to translate general principles into practice. For example, in the field of education, particularly of young Muslim women, there are difficulties arising from the interaction between very different traditions and beliefs, and the way forward is by no means yet clear. We ourselves have no simple solutions to offer, but we are convinced that politicians and those who form opinions in our countries must take the lead, because if they do not lead in the direction of integration and tolerance, they implicitly lead in the direction of segregation.

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COMMENTS

Saad Belghazi*

The paper presented by Mr. Ilkin on the impact of the Single European Market on the workers of Islamic countries has endeavored to describe the situation of workers residing in European countries. Mr. Ilkin has emphasized the uncertainty which presently clouds the status of emigrated workers. The Shengen agreements defined the conditions of mobility of EC residents coming from third countries. These agreements could serve as a basis for a future common policy for immigration in Europe. Their major negative aspect is that they limit the freedom of movement of non-European workers in the enlarged work market which will be established after 1992.

Secondly, Mr. Ilkin has approached, on a prospective level, the problem of the balance between the supply of emigrated labor from Islamic countries and the EC demand for labor.

I will focus my remarks on this second question particularly by relating it to the problem of the growth and the creation of jobs in the developing economies which are suppliers of emigrated labor to the EC.

The demand for labor in the EC has contracted since the mid-1970s. It will probably remain so until the year 2015. For the next 25 years, the countries south of the Mediterranean cannot orient their surplus of labor towards the EC.

This situation calls for defining a regional economic order inside which the countries of the South, partners of the EC, can develop an industrialization strategy productive of jobs. The EC is essentially concerned with this question. Furthermore, this explains Mr. Ilkin's conclusion when he envisages the use of a Marshall Plan to control demographic expansion and limit emigration.

The control and repression of immigration are socially and economically very costly. In the end (especially over a period of a quarter of a century, during which the tensions created by unemployment in the countries

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south of the Mediterranean run the risk of getting worse), it is necessary the states of the area should find collective solutions to this problem which must be acknowledged as being common to the countries north and south of the Mediterranean.

Economic growth and the resorption of the working population in excess of job opportunities in the countries of the South is closely linked to the necessity of redefining the place of these countries in the international division of labor. This growth can only come from the development of their exporting manufacturing sector of and the intensification of their agriculture. This supposes that in order to reduce their currency deficit and to pursue their equipment effort, they could reinforce their exports essentially towards the EC which supplies them with the greater part of capital goods and food products.

The exports of the countries of the South have experienced a relative modification in the last few years. Thanks to the delocalization of the labor industries, the role of primary exports (mineral and agricultural products) has declined. This movement should be continued and intensified, especially by reinforcing the direct investments of European firms. Moreover, trade between the countries of the South is likely to enable them to conquer a greater part of the world market than the part which is theirs at present. The countries 'of the South could organize in this sense the development of partnership relations between groups of firms in order to promote the development of their industry and try to conquer new openings.

What could be the impact of the creation of the Single European Market on these perspectives?

We could classify this into the positive and negative effects of the Single Market.

THE NEGATIVE EFFECTS

1. The first effect in the short and medium term stems from the policy of support of countries south of the Mediterranean to prepare them for the creation of the Single Market. This policy is carried out through subsidies and will lead to the greater competitiveness of countries south of the Mediterranean in international trade.

2. The second effect is that the restriction of the right to work of immigrants in the EC will have as a consequence the creation of zones characterized by the presence of an important number of emigrant workers. In spite of the labor legislation of different European countries, this restriction will favor the creation of a dual labor force with a fringe of the working population accepting more unfavorable working conditions and salaries, a kind of "Third World" inside the EC.

THE POSITIVE EFFECTS

3. The third effect will be the tendency to homogenize the salary costs in European countries. This would result from the creation of a single European labor market and from the fact that the Economic and Monetary Union will promote an increased growth of the revenues of EC countries (see the Cecchini Report and the Delors Report). This increase of salary costs in Europe will probably greatly stimulate the movement of delocalization of production towards the countries of the South.

4. The fourth effect relates to Monetary Union. We do not know at present the exact nature of the monetary form which will be adopted at the level of the EC. But, it is possible to think that it will have as an the reduction of pressures on the balance of payments that can be presently felt by European countries. Consequently, what could be expected from the future European Monetary Union is a more encouraging attitude towards the direct investment of European firms in the countries of the South and more active participation in the development of South-South trade.

Part Four

THE SINGLE EUROPEAN MARKET AND AFRICAN COUNTRIES (WITH SPECIAL REFERENCE TO WEST AFRICA)

14

THE RELATIONS OF WEST AFRICAN OIC COUNTRIES WITH EEC AND THE REPERCUSSIONS OF THE EUROPEAN SINGLE ACT

Mamadou Faye*

By the end of 1992, a new Europe will be born, that of the Single Act and of the largest existing Single Market in the world.

This decisive evolution will take place at the moment when a profoundly changing world is seeking its equilibrium for a durable peace without which the prosperity of the human race can only be a dream. This change is taking place at the moment when, in spite of the progress in science and technology making the 21st century one of hope for the development of man, three-quarters of humanity continue to live in unacceptable destitution.

So, at the moment when Europe has eliminated its internal frontiers and is preparing to take hold of the fullness of its power, Africa is asking what it can expect from the new Europe. How will it be able to face all the new challenges that will not fail to arise ?

I. THE EUROPEAN/AFRICAN DIALOGUE

The year 1975 was an important stage in the history of international cooperation for development and more particularly in European/African cooperation. It was, indeed, on the 28th of February 1975 that the first Lome Convention was signed, and it was on the same date that the ACP (African, Caribbean and Pacific) group of states was formally organized in Georgetown, Guyana. It should be noted, however, that it was not until the last minute that the development policy was elaborated during the negotiations which led to the Treaty of Rome in order to satisfy countries, like France, whose desire was to keep economic relations with their colonies within the new framework constituted

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by the European Community. The policy thus defined was the fourth part of the Treaty of Rome, to which was added an application convention for a five-year period relating to the association of the former colonies to the Community. The same convention set up the European Development Fund (EDF) which supplies the Community with the required resources for its financial and technical cooperation with associated countries.

A. The ACP/EEC Conventions : The Framework of an Exemplary Cooperation

By 1960, almost all overseas countries and territories had become independent. It was then necessary to create new types of relations between the Community and the 18 Associated African and Madagascar States (EAMA).

Therefore, the first five-year Yaounde Convention was signed, founded on the recognition of the national sovereignty of the signing countries. It was followed by the second Yaounde Convention, and, then, by those of Lome, the last of which will probably take effect at the beginning of the year 1992.

It should be noted that the Lome Conventions were marked, starting from the first one signed in 1975 for a period of five years, by the admission into the European Community in 1973 of Denmark, Ireland and the United Kingdom, making it necessary to extend the development policy of the Community to the former British colonies.

So at present, the Lome Convention associates to the European Economic Community consists of 66 ACP independent states including all the African countries south of the Sahara.

The group of ACP states is an impressive entity both in terms of its size (more than one-third of the countries forming the UN) and its diversity since it contains diversely populated countries with a variety of languages and political systems and economic situations which contrast countries considered among the poorest in the world with countries which have accomplished significant progress on the road of development and industrialization.

However, what is chiefly noticeable, beyond any other consideration, is the spirit of cooperation and the economic and political concept which it expresses. At a time when there were more risks of *confrontation* than understanding between the North and the South, the first Lome Convention grouped 46 ACP states and 9 European states which thus expressed their *concern* to reach the highest level of cooperation. Today, it is the 66 ACP states and the 12 members of the European Economic Community who are contributing in their way to the gestation of a new world economic order.

However, it must be said that this step proceeds at the same time from an awareness of the reality of interdependency between developed countries of the North and Third World countries; interdependency in commerce, raw materials, unbalanced demographies, aid for development, etc. From this point of view, it is clear that the European Economic Community can and must remain a balancing force in North-South relations.

1. The Commercial Field

The Third World is the first customer for European agricultural products and buys primarily finished products with a high added value; machinery and transport equipment (42% in 1986), manufactured products (20%) and chemical products (13%). The Mediterranean Basin and the Middle East absorb more than half of that and the ACP countries about a third.

In terms of employment in the Community, the production exported towards the Third World employs more than three million Europeans.

The demographic growth of the countries of the South would fully justify an increase in their consumption on condition, of course, that they could afford the means. This lack of means would certainly explain the drop in the exports of the Community towards the South between 1985 and 1986 (from ECU 128,813 million in 1985 to ECU 107,602 million in 1986) at the precise moment when Europe was looking for new consumers. This drop can also be found in the exports of the countries of the South during the same period. European imports from the Third World lost about one-third of their value between 1985 and 1986, with OPEC and ACP countries suffering more than others. The reason for this situation is simply that in the face of the decrease of the prices of raw materials, the Third World has reduced its imports to honor the service of its debt.

The fact remains that in 1986, the EEC absorbed more than one-fifth of the exports of the countries of the South, thus becoming the second market for their exports after the United States. With more than half of their exports, the Community market is the favorite for Sub-Saharan and North Africa. In 1987, the EEC represented 53% of the total exports of Africa and 58% of its imports.

2. Investment and Financial Flow

The situation described above, provides a picture of the poor performance of Africa in the matter of exports and illustrates its dependency to a great extent on the assistance and the liberation of external resources necessary to development. On this level too, the Community is the main source of the flow of capital used by Africa. This European investment in West Africa, which dates from the colonial period, involved importing commercial products from the mother country and exporting African base products. Then, it changed to establishing substitution industries. This may explain the reason why European investment in Africa is still concentrated in natural resources, the mining sector and industries.

European direct investment, though substantial, has nevertheless declined because of the reluctance of private investors to get involved in an area whose political climate is judged to be unstable. This withdrawal of private investment was to the benefit of Asia, South America and the Middle East where it could benefit from better conditions. And today, the political and economical evolution in Eastern Europe sets new challenges for the future of foreign investment in Africa. The risk is quite real that the proximity of Eastern Europe, its historical ties and racial and linguistic affinities with the North, not to mention the political stakes involved will a great attraction for investors.

B. The Single Act of 1992: Towards the Achievement of an Old European Dream

When the Treaty of Rome was signed in 1957 establishing the Community, we witnessed the fulfillment of the old European dream of a homogeneous and integrated economic space, which would lead to European political unity.

In 1985, almost 30 years after the Treaty of Rome, the European Community Commission found that in spite of the significant progress accomplished in the application of the Treaty, there were still existing barriers which hindered the free circulation of people and goods inside the Community. It was from this fact that the Single Act was born defining what Europe will be in 1992. It is primarily a European answer to the erosion of its competitiveness vis-a-vis countries like Japan and the United States. The Single Market is likely to enable Europe to optimize its collective economic potential. This market will be built by removing all frontiers.

Physical frontiers will be dismantled thus removing any obstacle for the free circulation of people and goods. Technical barriers will be eliminated freeing the circulation of services and capital and facilitating technological integration. The unification of product norms will then permit their circulation throughout the entire Community. It is obvious that the possibility of any industrial unit producing for all of Europe and not just for its local market will greatly increase European productive potential to its optimum.

Lastly, tax barriers will be removed. As the objective is to achieve a market with no frontiers, it is understood that the maintenance of significant prices differences resulting from the application of different tax legislation will only create serious disturbances in trade.

Achieving the Single European Market is a legitimate and revolutionary objective. Starting from 1992, we are going to witness the birth of a new Europe, which will once again be strong and will occupy the place it deserves in the world.

Europe will be economically powerful and according to a recent survey, the rate of growth of its GNP will average about 4.5%. It is obvious that this cannot but be beneficial for the level of production, employment and the quality of life.

Finally, Europe will be politically powerful because the harmonization and the integration of its economic space will be accompanied by the search for greater political cohesion.

II. THE SINGLE MARKET AND AFRICA

The creation of a Single European Market will increase the European Community's competitiveness and will launch its growth and development into the 21st century. Once this integration is achieved, the Community will become the largest Single Market in the world. This, added to the considerable weight of the member states even taken separately inside the international economic system, will inevitably have long range repercussions for the rest of the world. These repercussions will be particularly important for African countries which have long been imprisoned in dependency relations with the countries of the European Economic Community.

A. New Changes for Africa

We shall try to analyze what these repercussions for Africa may be in the important fields of trade and investment.

1. Commercial Repercussions

The planning of the Single Market is primarily a European matter. It consists of creating market with no internal frontiers and in which the free circulation of goods, people and capital will be ensured.

Community quotas will replace present national quantitative restrictions, and depending whether those quotas will be more or less restrictive than the national quotas they replace, African exports to Europe will be affected accordingly.

At the same time, the harmonization of technical regulations and production norms will affect trade with Africa, because the present level of African development is unable to satisfy the conditions which will be put on any product wanting to cross the European frontier.

The size of the Single Market, with 320 million people, will enable Europe to make noticeable scale economies. This, added to the expected renewal in competitiveness, will probably produce a stability in prices promoting an increase in demand. A recent survey shows that the Single Market will produce an average rate of growth of 4.5% in the Community's GNP, create 1.8 million new jobs and reduce the price average by more than 6%.

Under these conditions, the present level of competitiveness of African products, which are already handicapped by production costs which are sometimes too high, is in fact likely to become the real frontier that we must cross.

In any case, it is clear that the size of the market will create greater opportunities, but, at the same time, it will produce new challenges for African trade which, if not resolved, will in the end lead to a considerable loss of market.

2. Repercussions for Investment

African dependency on foreign investment does not need to be demonstrated. This investment has continued to decrease so that, generally speaking, it can be said that Africa has not benefitted from a substantial contribution of foreign investment. The available statistics show that foreign investment in developing countries fell from 23% in 1970 to 11% between 1980 and 1983. Africa did not benefit from the greater part of this already reduced portion. Moreover, the prospects are not encouraging, because the limited rate of growth of African economies plus the still high production costs do not offer an attractive environment for foreign investment. Added to this must be the fact that Africa region has been characterized by serious political instability.

Taking into account its size and its potential, the Single Market will provide an irresistible attraction for European and non-European investors, American and Japanese in particular.

The opening of Eastern Europe to the market economy will naturally make those countries satellites of Western Europe. Their present level of development, which is relatively greater than that of Africa, makes them naturally more interesting countries to do business with. The historic relations, territorial proximity and linguistic and racial affinities will do the rest.

Already a European Bank for Reconstruction and Development is operational.

Africa has already suffered the first wave of disaffection of foreign capital which could not resist the attraction of the Asian Basin. If we do not pay attention, the transfer of the center of interest towards Eastern Europe will complete the process.

B. The African Answers

In the face of such a situation and its distressing prospects for Africa, a twofold answer can and should be put forward: first, an acceleration of the African integration process and, then, concomitantly, the planning of the "Islamic Economic Space".

1. An Opportunity for African Integration

As has been explained above, the institutionalization of EEC/ACP relations proceeded from the awareness of interdependency at a global level. It expressed the will of the countries of the North and the South to undertake multidimensional cooperation in order to serve their mutual interests.

However, these relations have progressively assumed a unidimensional character, assistance taking precedence over the flows of exchange, and, as we all know, external assistance will always instill the mentality of dependency inhibiting any idea of development founded on internal effort.

At the dawn of a new century, Western Europe offers the world a good lesson in realism, which stresses unity for countries sharing the same geographical area and undergoing the same socioeconomic environment, and which puts forth unity as the only means of access to integral prosperity.

For Africa, the road must lead to the economic integration of the continent. It is certainly a long and exciting task for which each participant, whatever his position, has a role to play and a responsibility to take.

African economic integration is first of all a psychological matter. Every African must be deeply convinced of it and must place himself determinedly in the movement. However, it is also, above all, a practical task which needs to be effectively taken over by each state and institution.

2. Planning the Islamic Economic Space

Planning the "Islamic Economic Space" is the second part of the answer to the African problem, because the solidarity which led to the creation of the Organization of the Islamic Conference, must be based on economic exchanges serving the interests of the member countries and for the greater benefit of their nationals.

The OIC also has its "North" and "South". Its members include countries which benefit from considerable prosperity and which intend to use it to play the role which must be theirs in the concert of nations, and other countries which can be counted among the poorest countries in the world and which expect from the international community all the support they need to pull themselves up to an adequate level of development. The meeting of these countries in an institution like the OIC must lead to the emergence of a balancing power that the world greatly needs.

In light of the changes which are still taking place in Eastern Europe and strengthened by the leading role it played in the settlement of the recent Gulf conflict, the United States is becoming the sole guardian power in the world. However, this de facto situation does not seem likely to guarantee peace and a durable stability for the whole world. The Single Market with its political consequences will make Europe a new balancing force capable of playing a stabilizing role. Nevertheless, questions still remain as to the correct way to take over the interests of the countries of the South, and of Africa in particular. The Islamic Ummah economically integrated and politically united can play this role.

Table 1

Population

(In millions)

	1985	2000	2025
World	4799 (100%)	6062 (100%)	8195 (100%)
North '	1058 (22%)	1134 (19%)	1220 (14%)
South	3741 (78%)	4928 (81%)	6975 (86%)

Table 2

Trade of the EEC with the Major Regions of the South in 1985 and 1986

	EEC EXPORTS		EEC IMPORTS	
	1985	1986	1985	1986
TOTAL Developing Countries	128 913	107602	155945	108728
of which - ACP	19336	16049	30310	19575
- Mediterranean Basin	44117	36326	44278	29362
- OPEC	48598	35303	72203	39524
- Latin America	14630	13830	29882	20046
- ASEAN	9916	8217	10377	9108

Table 3

European Dependency on Some Products

(in % of extra-Community imports)

90 - 100	**Coffee, cacao beans, manioc, bananas, natural rubber, uranium, palm oil, coconut oil, sisal oil**
70 - 90	**Tea, groundnut oil, tin**
70 - 80	**Spices, natural phosphates, copper**
60 - 70	**Oilcake, aluminum**
50 - 60	**Iron, tobacco, manganese**
40 - 50	**Zinc, cotton, lead, oil products**
30 - 40	**Groundnut, tungsten**
20 - 30	**Rice**

Source: Eurostat Sienna

Table 4

Agreements of the Countries of Africa, Caribbean and Pacific

1957	The Treaty of Rome regulates in a convention of application EEC relations with dependent overseas countries and territories.
1963	The signing in Yaounde of the first convention of association between the Community and 18 independent African countries EAMA (July 20th).
1969	Renewal of the Convention of Yaounde (July 29th). Signing of the Arusha Convention between the Community and the three members of the East African Community : Kenya, Uganda, Tanzania (September 24th).
1973	"Protocol 22", annexed to the joining acts of Great Britain to the Community, offered 20 independent countries of the Commonwealth the possibility of negotiating the organization of their future relations with the EEC.
1975	Signing of the Lome Convention between the Community and 46 independent States of Africa, Caribbean and Pacific, the ACP countries (February 26th).
1979	Signing of the second Lome Convention with 57 ACP countries (October 31st).
1984	Signing of the third Lome Convention between 65 ACP countries and the 10 countries of the Community (the nine + Greece) (December 8th).
1988	Opening of negotiations between 66 ACP countries and the twelve countries of the Community (the ten + Spain + Portugal) in view of the conclusion of a fourth convention (October 12th).
1990	Expiration of the third Lome Convention (February 28th) and the expected coming into effect of a fourth ACP-EEC Convention (March 1st).

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THE RELATIONS OF WEST AFRICAN OIC COUNTRIES WITH THE EEC AND THE REPERCUSSIONS OF THE EUROPEAN SINGLE ACT

Lamine Seck*

I. INTRODUCTION

1. Along with the numerous constraints they must face in order to organize their development, Third World countries now have to deal with the consequences of the European Single Act.

Taking into account its size -which will probably exceed the limit of the present twelve countries considering the application for membership of Switzerland and Sweden and its resources, it is clear that the European Community will affect most countries and economic group.

2. It is in the interest of West African members of the OIC as well as other countries of the continent to ask themselves about the future of their relations with the European Community. The colonial past experience has enabled each of these countries to maintain political, cultural, economic and commercial ties with EC countries. The reconsideration of these ties could have negative consequences unless the issue is carefully studied beforehand.

3. This paper will confine itself for the sake of simplicity to the commercial field while taking into account two other important elements in the present international context : the changes taking place in Eastern Europe and the eighth edition of multilateral trade negotiations.

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Before turning to the future, it is necessary to look at the past and present levels of exchange between African OIC countries and the EEC, which we shall do by examining the case of Senegal.

H. DEVELOPMENT OF COMMERCIAL EXCHANGES BETWEEN SENEGAL AND THE EEC

4. In 1989, France supplied Senegal with 32% of its imports and received 35% of its exports.

These figures are well below the level they were at in the past, especially during the first years of independence when they reached 75%. Nevertheless, they show that for Senegal, France remains, by far, the most important partner for both imports and exports.

If, in addition, we note that in the list of the ten main suppliers and customers of Senegal, we regularly find half a dozen other members of the Community, we get some idea of the importance of the Community in the foreign trade of Senegal. This importance is shown in more detail in Table 1.

Table 1 shows that Senegal had an important deficit with the EEC an important deficit between 1985 and 1989 which represented more than 62% of its global deficit : in spite of the relative stagnation of imports compared to exports during this period (average yearly rate of growth 2 and 3.1%). The cover ratio has never reached 60% even if it has gained about 3 points during that period.

We can ask ourselves -in fact this question can be asked about all the countries concerned- how Senegal will reconcile the need to reduce its deficit with a possible decrease of its exports ?

5. As the main supplier, France is the first country we think of when we want to know the share of each of the 12 EEC countries in the unbalanced trade of Senegal. Table 2 shows that for 1988 and 1989, half of the trade deficit of Senegal is attributable to France with deficits of 35 and 47 billion CFA francs respectively.

Table I

Global Evolution of Exchanges Between Senegal and the EEC

(Values in millions of CFA Francs)

Years	1985		1986		1987		1988		1989	
	All Countries	EEC	All Countries	EEC	All Countries	EEC	All Countries	EEC	All Countries	EEC
Exports	252,192	102,992	216,578	98,512	182,216	88,310	176,083	98,591	221,117	116,292
Imports	370,971,	191,559	332,929.	175,723	307,598	176,156	321,571	168,921	389,511	207,629
Balance	-118,779	-89,567	-116,351	-76,911	-125,382	47,846	-145,488	-70.33	-168,384	-91,217
Global value	623,163	293,551	549,507	276,515	489,814	264,466	497,654	267,572	610,628	323,821
Export import ratio	68.0	53.7	65.1	66.2	59.2	50.1	54.8	58.4	56.8	56.0

Source : Provision and Statistic Directorate

Table 2

Part of the EEC Countries in the Deficit of Senegal

(Values in millions of CFA Francs)

COUNTRIES	YEAR 1988			YEAR 1989		
	Export	Import	Balance	Export	Import	Balance
GERMANY	1,840	, 13,121				
BELGIUM-LUXEMBOURG	1,169	7,112		1,229	8,663	- 7,434
DENMARK	173	3,3037	- 2,864	23	1,537	- 1,514
SPAIN	6,612	15,750	- 8,638	8,619	16,111	- 7,432
FRANCE	66,262	101,331	- 35,069	77,181	123,968	- 46,787
GREECE	2,219	92	+ 7,127	2,812	2,623	+ 186
IRELAND	500	364	+ 136	1,222	602	+ 620
ITALY	7,289	12,587	. - 9,298.	11,907	20,161	- 8,254
NETHERLANDS	7,271	8,562	- 1,291	7,089	12,301	- 5,212,
PORTUGAL	1,696	997	+ 1,130	716	1,683	- 967
UNITED KINGDOM	3,557	7,508	- 3,951	2,916	7,502	- 4,586
EEC TOGETHER	98,591'	168,971	- 70,330	116,292	207,529	- 91,237

Source : Provision and Statistic Directorate

We must not, however, forget that at the same time France has absorbed two-thirds of Senegal's exports (67% in *1988,* 66% in *1989) which* means that proportionally its weight in the trade deficit is less important than that of Germany, Spain, Italy or the group Belgium-Luxembourg. In fact, efforts to reduce the deficit must be oriented towards all EEC countries including Greece and Ireland with which Senegal registered a slight surplus.

6. The range of products Senegal imports from the EEC is very wide.

However, the main imports are foodstuff, pharmaceutical products, parachemical industrial products, cars and spare parts and machinery and electrical appliances, as shown in Table 3.

Table 3

Structure of Imports of Senegal from the EEC

GROUPS OF PRODUCTS	PART (IN %)
Milk products, eggs, honey	7.7
Vegetables and fruits	4.4
Wheat flour	3.2
Beverages	0.8
Pharmaceutical products	7.1
Parachemical industrial products	5.1
Paper, cardboard and their applications	7.2
Machinery and appliances	31.6
Cars and spare parts	13.6
Other products	19.3
TOTAL	100.0

Source : Provision and Statistic Directorate

The import of machinery and appliances is explained by the need for capital goods intended for the agricultural industry and services which is normal for a developing economy. As for the 16% of imports accounted for by food products, this underlines the need to increase the efforts being made to reach self-sufficiency in food.

7. The list of Senegal's exports contains about fifty items which reached 25 million CFA francs in 1988. However, a number of these are only occasional exports or re-exports. The most significant exports as shown in Table 4, are phosphates, groundnut and groundnut derivatives and fish products, which represent more than half of the total.

Table 4

Structure. of the Exports from Senegal towards EEC

GROUPS OF PRODUCTS	PART (IN %)
Fresh sea fish	13.9
Shark's fins and tails	0.3
Salted, smoke cured and dried fish	0.1
Shrimps	17.2
Lobster	0.4
Mollusk and shell-fish	0.4
French beans	2.0
Gum	1.2
Crude groundnut oil	20.6
Canned tuna fish	24.6
Groundnut oil-cake	12.6
Phosphates	4.7
Shelled cotton in mass	0.2
Other products	11.9
TOTAL	100.0

Source : Provision and Statistic Directorate

There has been an important change in the structure of exports: fish products represent more than phosphates and groundnut combined whereas these two products used to represent more than 90% of all exports. The diversification efforts which account for these change should be maintained and advantage should be taken of other possibilities, such as, cotton and industrial products.

8. Let us conclude this survey of Senegal/EEC commercial relations with a word on the terms of exchange *which* will make it possible to take into account those items which we have not mentioned for lack of time.

The export price index (based on 100 in 1977) stood at 132.6 and 142.2 in 1988 and 1989. The improvement of the price of exported goods is thus real, but it remains less than the rise in the price of purchased goods since the value of the import price index (based on 100 in 1977) for the same years was 170.7 and 179.7 respectively.

This means that the balance of trade index which was already unfavorable in 1988 , when it stood at 86.2, fell by 8.2 to 79.1 in 1989. These different indexes concern the entire commerce of Senegal, but because of the part of the EEC and the structure of trade with it, they explain quite well the conditions in which this trade takes place. Whereas the price of the food products, medical products and capital goods which Senegal buys from the EEC increase regularly, the price of the merchandise Senegal sells, which is made chiefly of primary products, in real terms, i.e., taking into account inflation and currency depreciation, can be viewed as stagnation or even as regression.

What is the situation of the other member countries of the OIC?

III. EXCHANGES OF OTHER WEST AFRICAN OIC MEMBERS WITH THE EEC

9. It would be wrong to suggest that the situation of Senegal applies to Benin, Burkina Faso, Guinea Bissau, Guinea, Mali, Mauritania, Niger and Sierra Leone.

There are important differences in the composition, and consequently, the structure of the exports of the countries to the EEC. In other respects, the level of dependency varies from one country to another while still remaining important for each of them. However, there are the numerous similarities which enable us to examine problems in the same general terms and to propose global strategies while taking into consideration individual variations.

10. In the case of imports, machinery and appliances, as for Senegal, are the most important item followed, not always in the same order, by food products, cars and pharmaceutical products. For each of these countries, trade with the EEC is dominated by a partner which is almost always the former colonial power. However, other EEC countries are also important trading partners.

The bulk of the sales of these countries to the EEC is made up of raw materials and products which have undergone very little refinement, **and** over whose price the exporting countries have very little control.

As a result, these countries are victims of unequal exchange since, in comparison, the costs of their purchases from EEC countries keep increasing. However, the main point these countries have in common is that they all belong to the ACP group of states linked to the European Community by the Lome Convention. The question, therefore, is what the nature of the relations of this group will be with the advent of the Single Market.

IV. THE EUROPEAN SINGLE ACT AND THE LOME CONVENTION

11. Even though the Lome Convention was freely negotiated it is constraining on the judicial level and Lome IV, which has already come into effect, will be valid up to the year 2000.

We can, therefore, ask ourselves if the Single Act of 1993 will provide reasons to modify this contract in order to make it more favorable to the ACP, or if, on the contrary, it will restrain the advantages the ACP states have been granted.

The Lome IV mechanisms, as far as the 7th European Development Fund is concerned, are STABEX, SYSMIN, duty-free access of some ACP products, financial means to promote and develop trade as part of subsidies to national and regional programs and loans for national and regional projects from the European Bank of Investment. The question is: Will these mechanisms become more operational or less efficient when the Single Market becomes a reality?

12. The range of STABEX has been limited, in addition to the practical difficulties related to its management, by the slowness to mobilize funds. Nothing allows the judging beforehand of the effect of the market on its functioning. What is important is that the sums released should be actually allocated to support the exports earnings of the countries which need them and not be diverted to other ends (e.g., Eastern European countries).

13. As for the duty-free access of some ACP products, the problem is the effective exploitation of the possibilities and the expansion of the covered field.

Many ACP products, theoretically eligible for duty-free admission have their access to EEC refused because of different kinds of nontariff measures which make these possibilities look like a dependency.

It seems that, on this point, the governments of ACP countries can find no arguments put forth to their economic agents who feel directly threatened and who are supported by public opinion. The internal difficulties which these countries face individually and which one of them has especially experienced recently, do not prompt us to believe that the abolition of barriers will necessarily benefit ACP countries. Indeed,in some sectors, the setting up of a Single Market, by encouraging infra-EEC competition, may result in protectionism especially in the case of agriculture where Community policy continues to trouble foreign exports without being able to resolve internal contradictions.

How can we hope, in light of these conditions, for greater coverage which would take into account products which directly concern ACP countries, even though this would give a boost to their exports. The other shortcoming of this preferential treatment is that it excludes, for the time being, a good part of the products which might benefit from it. Even if results are slow, ACP countries must keep pressing for an enlargement of the covered field. To do so, they must join their efforts with those of another group of Third World countries : the beneficiaries of the EEC's GSP scheme.

Developing countries which are not members of the ACP, have been looking for years for a more rational exploitation of the different schemes in the Generalized System of Preferences. If we take for granted the renewal of the EEC's scheme for a third period (following the second period which will expire shortly). The consequence for ACP states would be an erosion of their advantages over non-ACP states, because the dispositions of the Lome Convention are more favorable than those of the EEC's GSP scheme. However, this is surely preferable to an inaccessible market.

14. In regard to subsidies to national and regional program, the main problem will be assigning a sufficient portion to trade and dividing it

correctly between the beneficiaries. In order to avoid the risks of a controversial division, it would be in their interest to give priority to regional programs for West African OIC members. This task will be facilitated by the fact that these countries are members of the West African economic community which considers commercial cooperation one of its axes for the integration of the subregion.

This is the place to insist on the choice of projects at the national as well as the regional level; it is advisable to aim at sectors oriented towards the export of products of which the Single Market will remain in great demand. The need for cooperation between countries of the South will be better taken into account in programs defined within institutions grouping those countries and financed by them.

It is difficult to ignore the sectors of basic products because of their importance and it is also necessary to find a solution to the problems which affect them and which are often linked to the fluctuation of prices. The role of extracting industries in these basic products and their importance as exports demand that we set aside a part of the subsidies for them in order to palliate for the modest credits designed to that effect as part of SYSMIN.

In comparison to the needs it is intended to satisfy, the system of assistance to mining industries seems particularly insufficient. The ECU 480 million provision provided in the 7th EDF (European Development Fund) for all ACP states could hardly meet the needs of CEDEAO members alone.

This means that countries whose exports almost exclusively consist of mineral products (as is the case for some OIC members) will more than others, have to call upon the above mentioned subsidies or other resources such as the high risk capital of the 7th EDF and the loans of the European Bank of Investment. They are the ones who may suffer from a possible diversion, towards Eastern Europe of a part of the subsidies intended for ACP countries.

15. Notwithstanding the recent creation of the European Bank for Reconstruction and Development and statements meant to be reassuring made by some European officials, the risk is real. It comes first from the fact that the needs already expressed by Eastern Europe added to those which are likely to be created by present developments will undoubtedly exceed the resources of the EBRD.

Moreover, the implementation of the Single Market may intensify the movement of those who, in Europe, already maintain that solidarity, above all, must depend on geographic proximity and see no reason to grant countries situated in other continents advantages which might be better used for other European countries. The ultimate goal being that the Single Act will eventually cover the continent as a whole.

It, therefore, would seem wise to seek the immediate liberation of the ECU 1,200 million that the European Bank of Investment must, as part of Lome IV, grant ACP countries in the form of loans for their national and regional projects.

But, do ACP countries have the means if not to prevent the diversions which might take place at their expense, at least to reduce the risks?

Generally speaking, have they thought of protecting themselves against the consequences of a possible change of attitude on the part of their European partner?

Are they aware that beyond their relations with the EEC, the first lesson to draw from the Single Act, even before it comes into effect, is the necessity for them and the other developing countries to reinforce their solidarity in order to make their voices heard ?

16. These questions may at first glance seem superfluous. The concerns they express are, indeed, taken into account by the numerous organizations and institutions grouping Third World countries. Whether these organizations are based on geographical area or upon the pursuit of the same political or economical goals, they must put in common the strength of their members in order to form groups capable of assisting members in need, and to be able to protect their interests in their negotiations with third parties.

However, we cannot but note that few of them have managed to play this role correctly. Understanding the causes of their failures if combined with the lessons which can already be drawn from the Single Act will help us to cope better in the future. This is true even if the European Market with no frontiers does not become a reality in 1993, and even in light of the reasons why the multilateral trade negotiations could not be concluded in Brussels at the end of last year.

17. It is a fact that a group the size of the European Market as envisaged for 1993 cannot be organized in two or three years. However, the three decades which were necessary for Europeans to reach an agreement can be avoided by other groups if they keep in mind that this delay was due essentially to insufficient conviction on the part of the members as to the usefulness of the market and a failure to appreciate the economic, financial, commercial, political and social costs that each of them would have to bear.

In Africa, there are numerous examples of subregional institutions or communities that have stumbled on the problem of necessary resources for their subsistence and have additionally found themselves with no means to face the violations of the treaties which created them, treaties which, nevertheless, insist on the necessity of viable groups and which are signed by the heads of states themselves.

With regard to the CEDEAO, we have no doubt that after 15 years of existence, it could have fulfilled a large part of its initial objectives if it had been allowed to play its role.

It would, in that case, have formed at present a market of a fair size, capable, in the face of the EEC, of carrying a weight far exceeding that of its 16 members put together and they would have enabled it to make the above mentioned conditions of trade less arbitrary.

The EEC could not but have taken seriously an entity of more than 200 million consumers which would supply the EEC with the raw materials for some of its industries and in return, would absorb a fair quantity, of its machinery and agricultural surplus.

The interests of this market could also play an important role in the sale of services which are likely to undergo a considerable development by the end of the century.

Agricultural products and services are, indeed, at the center of international commercial relations as seen through the role that the former plays in the slowness of the Uruguay Round and the general agreement project on the GATT model of which the latter is the object.

18. If, since the start of multilateral negotiations, the different parties have not reached an agreement on agricultural issues , it is because of the sensitive nature of this sector and the economic and commercial interests linked with it.

However, compromises could have been found to the subsidies problem, the issue concerning the income of farmers, stockbreeders and suppliers, if each party, instead of sticking only to the interests of its nationals, had shown flexibility towards the needs for more fluid and profitable trade for all.

This inflexibility along with difficulties in the high technology sectors is the heart of the deadlock in negotiations. This comes as a reminder that commercial relations are still implicitly governed in terms of strength, and faced with the big powers and the large economic entities. The organizations grouping developing countries are condemned to strengthen themselves to become interlocutors that one listens to, both as producers defending their interests and customers with a say in the quality and price of the goods they are offered.

19. The quality of the producer will be of interest in the future to developing countries in as far as new services are concerned, knowing that the number of these services is constantly on the increase. But, for the time being, it is mainly as organized consumers that they should be ready to participate in the international trade of services.

This trade has progressed to the point that it has become necessary to regulate the transactions governing these services in a similar way to the General Agreement on Tariffs and Trade.

If the General Agreement on Service actually comes into effect, it will reduce the irregularities and disputes affecting this trade.

However, even in the absence of such an agreement, it is certain that the Single European Market like other developed markets will quickly become unable to absorb all of them. It means, therefore, that developing economies must be able to receive them in terms which will strengthen their position in international trade, terms which they will obtain, once more, not as gifts but as -a result of their own efforts for organization and integration.

V. CONCLUSION

20. The discussion of the possible repercussions of the European Single Act on the relations of the EEC with West African members of the OIC has rather given us the opportunity to ask a number of questions. The answers to these questions are, as in the case of any speculation about the future, slanted by the degree of uncertainty which affects the different partners concerned.

However, it appears that those countries and all states in a similar situation have no choice but form viable entities which will have sufficient negotiating power to cope with the coming Single Market and other groups already organized.

"Viable entity" and "negotiating power" are, indeed, attributes that participants in international transactions must have if they want to eliminate the inequality of their exchanges and its corollaries : an increasing degree of dependency, precarious export earnings and the impossibility of catching up on the economic level.

21. The merit of the European Single Act is to remind these countries that if other states which are individually in a better position have felt the need to join together, then they cannot but reconsider the way their different organizations have been functioning so far.

If, as the official speeches and the signing of the treaties lead us to believe, these countries are convinced of this necessity, then the road covered by the Europeans to reach an agreement can serve as a model to renew the vitality of the organizations which are most likely to become the viable entities we have mentioned above . This supposes, of course, that each one is ready to make the contribution expected of it in all fields.

Once this happens, we can then be sure that even if they cannot immediately deal on an equal basis with their developed counterparts, these organizations will contribute in a few years to bring the balance of power to a more acceptable level.

If there are people who still have doubts as to the vital character and even the utility of these groups or if their members do not endow them with the means to function properly, the agreement by which the European Economic

Community and the European Free Trade Association is attempting to set up a European Economic Space is likely to open their eyes.

To those who are reluctant to envisage the relations between countries in terms of their competition with one another (as illustrated by the example of the Multifibre Agreement signed by the economic powers in a sector as important as textiles) we can say that developing countries have nothing to lose by setting up strong and structured entities to enable them to defend their interests without being detrimental to their partners. However, the defense of their interests presupposes a return to them of rights or advantages that others have duly obtained for themselves. It is very unlikely that this restitution can be accepted without being seen as an attack on the interests of developed countries. Who then would dare to refuse the wronged countries the use of the means at their disposal to seek amends, means made up of the viable entities they have formed?

Therefore, even if we cannot specify the future repercussions of the European Single Act, its immediate consequence is to oblige the countries concerned to review those relations which link them closely to the EEC and other developed countries (links that must be balanced) and those relations which they maintain with other developing countries, which must be reinforced for the reasons already mentioned.

COMMENTS*

Taj Kacem**

Having reminded us that Islamic countries suffer from the situation of most of the countries of the South, and that the European Single Act is a new constraint in addition to the other obstacles which Third World countries have to face, the authors of the two papers have ended by asking the following question : What can Africa expect from the new Europe?

To answer this question, they began by drawing certain conclusions. Firstly, the EEC remains the main commercial partner of the countries of West African OIC members.

According to Mr. Mamadou Faye, it represented in 1987, 53% of the total exports of Africa and 58% of its imports. It is also the main source of the flow of capital from which Africa benefits.

Mr. Lamine Seck points out that the foreign trade of Senegal is dominated at the import level by technological and food products, and at the export level of by fish products and crude groundnut oil. He remarks, in other respects, that the index of the terms of the exchange continued to decrease during the 1980s. From this starting point, the author extrapolates the analysis to the other member countries of the OIC, while pointing out a certain difference at the level of the structure of trade.

Secondly, the Lome Convention forms a framework for exemplary relations in one direction only. In this regard, Mr. Faye begins by underlining the fact that this convention is a consequence of the awareness of the interdependency between the North and the South. He then remarks that relations between EEC and ACP countries have little by little assumed a "unidimensional" character, assistance taking precedence over trade.

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It is perhaps for this reason that Mr. Seck wonders whether "the Single Act of 1993 will show reasons to modify this contract in a more favorable sense."

Thirdly, the European Single Act is a "good" lesson in realism. For Mr. Faye, this Act represents in fact the European response to the erosion of economic competitiveness, engendered by the economic expansion of other industrialized countries such as Japan and the United States. He expresses the idea of Mr. Jacques Delors, President of the European Commission, by starting that "immobilization will lead the member countries of the Community to an ineluctable international downfall_".

The author also calls attention to the objectives of the "great European market" which consist of the dismantling of physical, technical and fiscal barriers. He concludes that Europe offers the world a good lesson in realism _ which leaves the Union as the only alternative _ ".

Fourthly, concerning the relations between the countries of West Africa *which* are members of the OIC and the EEC, Mr. Faye concludes that the "size of the market will create at the same time greater opportunities, but it will inevitably present to the African foreign trade new challenges _."

Mr. Lamine underlines the fact that reflection on the possible repercussions of the Act on the relations between EEC and West African states provides an opportunity for the formulation of a certain number of questions.

The two authors, however, have both expressed their fear of the dangers represented by the shifting of European centers of interest towards the countries of Eastern Europe. Indeed, Mr. Faye considers this rapprochement the biggest threat to investments in Africa.

The two speakers recommend that West African countries which are OIC members reinforce their solidarity and develop the Islamic economic space. How and under what conditions ? That is the real problem.

By carrying the analysis of the authors further, we can add:

1. That the Single Act has engendered fundamental modifications, not only at the level of common norms for firms but also for anything that

concerns the opening of public markets, the liberation of the flow of capital and EMS, social aspects, transport, the number of consumers, taxation, telecommunications, energy, industrial and technological cooperation, agriculture and audiovisual technology:

2. That we should take into account not only the commercial aspects of cooperation, as some have a tendency to do, but also the financial, monetary, technological, political, cultural aspects, etc. In other words, the firms of African countries, in order to be able to have access to the European market, must respect the consumption norms of that market, which themselves impose production norms; that is to say, the use of technologies imported from rich countries. As these are expensive, it will be necessary to resort to the international financial market which in its turn imposes technical and financial norms.

3. That African countries which are members of the OIC do not have the same means to be able to compete against European firms in their own market.

According to a recent survey of the EEC Commission, the Single Act will enable Europe to widen the gap further : cost reductions ranging from 1% to 7% according to the sectors, a decrease of up to 6% in the consumer prices, an increase of about 5% in the GNP of the EEC,etc. This large market will enable firms "to achieve scale economies, to valorize comparative advantages, to make the prohibitive costs of research show profit _ to organize consequently their competitiveness in comparison to their foreign competitors".

It is no longer a question of adopting defensive attitude, as the President of the ACP Ministers' Council pointed out when he said that "the ACP group hopes that the present reorganization of the world economic blocks, the achievement of the big single market, as well as the opening towards the East will not extinguish the torch of Lome and they will not marginalize the ACP-EEC cooperation" (see: ACP-EEC Courier # 120). Rather it is a question of anticipating events by adapting to the new situation.

Among the foreign policy orientations of the 1992 program, we should keep in mind that:

1. "The Community is bound by the international engagements taken with GATT, OECD, in the framework of the Lome Convention, etc _."

In other words, the Community has only pledged "traditional relations". It has adopted a neutral attitude, as if new economic conditions do not in any way concern the economies of third countries.

2. In other respects, the objective of the Community is to reinforce the system of multilateral exchanges according to the principle of the balance of mutual advantages and reciprocity, which remind us of the old principles. of the GATT which militate in favor of the rich countries and which African countries have always challenged.

Between the facts and the intentions, one thing is sure : the firms of African countries will have more and more difficulty in commercializing their products on the European Market. It is no longer sufficient to formulate questions on the uncertain character of the consequences of the Single Act, because, in the present state of affairs, the incidence cannot but be negative. The member countries must react, and the sooner, the better. In 1993, it will be too late.

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ISLAMIC DEVELOPMENT BANK (IDB)

Establishment of the Bank

The Islamic Development Bank is an international financial institution established in pursuance of the Declaration of Intent by a Conference of Finance Ministers of Muslim countries held in Jeddah in Dhul Qa'da 1393H (December 1973). The Inaugural Meeting of the Board of Governors took place in Rajab 1395H (July 1975) and the Bank formally opened on 15 Shawwal 1395H (20 October 1975).

Purpose

The purpose of the Bank is to foster the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of *Shari'ah.*

Functions

The functions of the Bank are to participate in equity capital and grant loans for productive projects and enterprises besides providing financial assistance to member countries in other forms of economic and social development. The Bank is also required to establish and operate special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, in addition to setting up trust funds.

The Bank is authorized to accept deposits and to raise funds in any other manner. It is also charged with the responsibility of assisting in the promotion of foreign trade, especially in capital goods among member countries, providing technical assistance to member countries, extending ,reining facilities for personnel engaged in development activities and undertaking research for enabling s economic, financial and banking activities in Muslim countries to conform to the *Shari'ah.*

Membership

The present membership of the Bank consists of 48 countries. The basic condition for membership is that the prospective member country should be a member of the Organization of the Islamic Conference and be willing to accept such terms and conditions as may be decided upon by the Board of Governors.

Capital

The authorized capital of the Bank is six billion Islamic Dinars. The value of the Islamic Dinar, which is a unit of account in the Bank, is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund. The subscribed capital of the Bank is 3,654.78 million Islamic Dinars payable in freely convertible currency acceptable to the Bank.

Head Office

The Bank's head office is located in Jeddah in the Kingdom of Saudi Arabia and the Bank is authorized to establish agencies or branch offices elsewhere.

Financial Year

The Bank's financial year is the Lunar Hijra year.

Language

The official language of the Bank is Arabic, but English and French are additionally used as working languages.

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