The European Single Market in 1992 and its Possible Effects on African Economies

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Résumé: *La réalisation du Marché unique européen constitue un défi majeur tant pour les Etats membres que pour le monde extérieur. Les pays africains semblent mal préparés à cette formidable mouvance en cours en Europe, leur principale partenaire économique. La part de l'Afrique dans les exportations à destination de la CEE, baisse constamment, du fait notamment du manque de compétitivité des produits africains (au double plan des prix et de la qualité) et des mutations technologiques qui influent sur le processus de production en Europe. Un des éléments les plus importants par rapport à la production, c'est la baisse enregistrée au niveau des quantités de matières premières requises ou la substitution des ingrédients naturels par des produits bio-technologiques. Les pays africains ont peut-être intérêt à diversifier leur coopération commerciale dans le monde, en y incluant également le commerce "triangulaire" entre eux, la CEE et les pays de l'Europe de l'Est. A long terme, il est possible que le marché unique européen donne à l'Afrique la chance d'explorer et de tirer profit de son marché intérieur. Il est également probable que ce marché intérieur européen près d'être achevé, donne l'impulsion à l'intégration économique en Afrique.*

Introduction

In 1985 the European Economic Community (EEC) initiated a number of actions towards the full integration of the European market into a single market by the end of 1992 or soon thereafter. An integrated internal market of 330 million people will emerge free of restrictions on the movement of people, goods, services and capital. Such an integrated Single European Market (SEM) will inevitably have a great impact on the world economy. On the one hand, it will bring substantial business opportunities for the rest of the world resulting from the removal of internal barriers and from higher economic growth. On the other hand, it might lead to trade losses for extra-community producers as the competitiveness of the European Community (EC) firms will be enhanced and, possibly, protectionist barriers raised to facilitate the burden of adjustment of internal producers.

Outside the EEC, the predominant reaction was not only concern but fears about the future relationships between the EEC and the rest of the world. African countries, in particular, are becoming increasingly concerned about the impact on their economy of the completion of the SEM, as their economies are particularly vulnerable to EEC trade fluctuations. The African

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fear of increased EC protectionism arises essentially from the possibility that the currently remaining most restrictive national trade barriers would be extended on a community wide basis and that the "reciprocity principle" would be used by the EC as a bargaining tool to allow access to the EC market. The resulting improvement in the competitiveness of European industry would result in substantial trade diversion for African countries. Whereas other developing countries of Asia and Latin America could gain access to a "fortress Europe" through direct investment, most African countries would not have the financial and technical capacity to do so.

Furthermore, the uncertainties related to the integration of the EC market are compounded by apprehension associated with the outcome of several important international trade negotiations which are currently underway or projected to start and will have a strong bearing on EC market access for African countries. The negotiations include: (i) the GATT Uruguay Round which was scheduled for completion at the end of 1990; (ii) the reform of the Generalized System of Preferences (GSP); and (iii) the renegotiation of the Multi-Fibres Agreement (MFA) after MFA IV expires in 1991. Concern arises also from the possibility that financial flows to Eastern Europe from the EC and other major industrialized countries (USA, Canada, Japan, etc.) will "crowdout" capital flows to developing African countries. This would slow down technological transfer to African countries and ultimately their pace of development.

This paper attempts to provide a broad and tentative assessment of the effects of the EC integration on African economies. It starts in Section 2 with an analysis of trade and financial flows between the African countries and the EC and then evaluates in Section 3 the net impact on the African economies of both EC trade creation and trade diversion. Section 4 looks at the sectorial issues such as the elimination of existing African State quota or privileged access for goods from particular membercountries, the harmonization of indirect taxes in the EC and the uniformization of EC technical norms and standards. The impact of Europe 1992 on trade in services and on direct foreign investment is analyzed in Section 5. Section 6 is a brief conclusion of the study.

Trade and Investment Links Between the European Community and Africa

Trade Flows

The EC made up between 40-60 per cent of Africa's export-import markets during 1975-1990 and exports remain the major source of resources for development finance. Table 1 gives a snapshot of the evolution of Africa's trade with the EC between 1975 and 1990. The EC represented the first largest single export-import market for African countries, while other developed market economies absorbed between 20-40 per cent; the Centrally planned economies between 3-9 per cent; and the other developing

Table 1 - Direction of Trade (Exports X and Imports M) (Per cent)

Year	World	European Community		Other Market Economies		Centrally Planned countries		Other Developing countries		Developing Africa	
	X/M	X	M	X	M	X	M	X	M	X	M
1975	100	50.1	65.1	24.2	9.3	3.7	5.1	18.1	16.5	2.9	4.0
1976	100	48.1	63.2	26.4	12.4	3.8	4.8	18.0	15.7	3.7	3.9
1977	100	45.9	59.3	29.2	17.0	3.5	4.9	17.8	15.2	3.6	3.6
1978	100	44.9	58.1	34.5	18.4	4.1	5.0	12.8	15.2	3.7	3.3
1979	100	44.7	52.1	33.6	22.4	3.1	4.7	15.3	17.8	2.8	3.2
1980	100	42.8	51.1	35.5	22.4	3.1	4.2	15.5	18.6	3.1	3.7
1981	100	45.2	50.4	30.9	25.0	3.2	4.7	16.6	16.2	4.1	3.7
1982	100	40.3	49.5	37.6	24.1	3.6	4.4	14.1	17.6	4.4	4.4
1983	100	39.6	41.8	37.7	33.6	3.3	6.7	15.2	13.4	4.2	4.5
1984	100	44.4	40.9	35.2	32.0	3.5	6.5	12.6	16.0	4.3	4.6
1985	100	46.2	42.3	30.9	33.3	4.3	6.9	14.8	13.1	4.6	4.4
1986	100	50.8	47.1	25.3	31.3	5.2	7.2	13.5	10.0	4.2	4.4
1987	100	57.5	50.5	28.9	29.8	4.5	6.4	14.6	8.7	4.5	4.6
1988	100	55.1	50.1	24.6	28.7	4.9	7.2	11.3	9.3	4.1	4.7
1989	100	53.7	52.1	22.8	22.7	5.5	8.7	13.2	11.6	4.8	4.9
1990	100	57.8	50.1	19.9	25.8	5.2	8.1	12.1	10.9	5.0	5.1
Average	100	47.9	51.5	29.8	24.3	4.0	6.0	14.7	14.1	4.0	4.2

Source: IMF, *Direction of Trade Statistics, 1991; UN, Yearbook of International Trade Statistics* (various issues); and UNECA, *Foreign Trade Statistics for Africa* (E/CM.N/Stat/Ser. C/B), 1990.

economies 10-20 per cent. The share of the intraAfrican trade is only about 5 per cent of the total African trade with the world. The EC market share in Africa's exports has been shrinking during the first half of the 1980s, partly because of appreciation of the European currencies against the US dollar during the same period. However, after 1985, the EC's share has risen rapidly while that of Japan, the USA and Canada has been falling.

Compared to the overall world trade with the EC, Africa's share of the EC's market which was between 5.7-6.5 per cent during the 1980-1985, declined subsequently to 3.9 per cent in 1986 and 3 per cent in 1988 as demonstrated in Table 2. Thus Africa has been loosing EEC markets for the second half of the 1980s decades, despite the preferences accorded to African countries under the Lome II Convention. It is believed that the reasons for the shrinking share of African exports to the EC is Africa's low competitiveness and supplyside bottlenecks. But a combination of domestic production difficulties and stiffer competition in the unified and more open market will probably lead to a further decline in the African produce on the European market.

Table 2: Exports to the EEC by Group of Countries and their Respective Shares (In billion of US dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
World Total	699.0	620.0	643.6	620.4	634.5	660.1	761.7	930.8	1058.2
Industrialized Countries	491.4	437.7	460.6	451.7	461.3	484.7	608.9	749.4	859.2
(Per cent)	70.3	70.6	71.6	72.8	72.7	73.4	79.9	80.5	81.2
Other Developing Countries	167.5	146.6	146.2	132.8	135.1	134.1	123.7	149.4	167.4
(Per cent)	24.0	23.6	22.7	21.3	21.3	20.3	16.2	16.1	15.8
Developing African Countries	40.1	36.4	36.8	35.9	38.1	41.3	29.1	32.0	31.6
(Per cent)	5.7	5.9	5.7	5.9	6.0	6.2	3.9	3.4	3.0

Source: IMF, *Direction of Trade Statistics Yearbook 1989 and 1985.*

Table 3 gives the evolution of Africa's commodity trade composition with the European Community between 1970 and 1987. In value terms, the commodity exports which rose by 15.0 per cent per annum in 1970-1980 fell by 1.6 per cent per annum in 1980-1987 period; whereas the imports which increased by 19 per cent per year in 1970-1980 drastically declined by 1.4 per cent between 1980 and 1987. Clearly massive swings in the price of oil have had a major impact on the value figures. Looking at the trade composition, fuels continue to represent more than half of the African exports to the EC and its share increased from 43.1 per cent in 1970 to 69.5 per cent in 1980, but declined to 58.5 per cent in 1987. While the share of foods, agricultural and raw materials, and ore and minerals drastically decreased in Africa's exports, imports increased during the period 1970-1987; manufacturing exports to the EC increased substantially from 4.1 per cent in 1970 to 12.1 per cent in 1987 (coming mostly from the Mediterranean North African countries), whereas its overall share in imports declined. The decade of the 1970s was good for Africa-manufactured exports to the EC but, except for oil, disastrous for all other categories. The rise in the share of manufactures primarily reflects the poor performance of exports of primary goods as the demand for and the prices of these commodities shrunk.

Table 3: Africa's Major Commodity Exports/Imports to/from the EC

Commodity	Exports			Imports		
	1970	1980	1987	1970	1980	1987
Total ECU Million	7201	29180	25983	5428	30938	28165
A) As % of Total						
Foods (SITCO+1)	25.7	13.6	17.8	11.4	13.4	14.4
Agric. and Raw Mater. (SITC2+4)	7.1	3.7	4.7	1.0	0.7	1.3
Ore and Metals (SITC5)	20.0	7.8	6.8	1.5	1.2	1.5
Fuels (SITC3)	43.1	69.5	68.5	2.5	5.5	3.0
Manufactures (SITC6-9)	4.1	5.4	12.2	83.6	79.2	79.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
B) As % of Africa Total World Trade						
Foods	54.1	54.5	59.1	36.8	42.7	44.6
Agric. and Raw Materials	39.3	51.1	52.9	19.5	17.9	24.3
- Ore and Metals	63.8	55.8	54.3	46.9	40.8	41.6
fuels	78.3	38.9	59.0	24.9	29.1	18.7
- Manufactures	35.9	56.7	52.7	51.8	57.4	58.6
Total	61.2	42.8	57.5	46.9	51.1	50.5

Source: IMF, Directional of Statistics Yearbook 1989 and 1985.

Moreover, the share of Africa in EC imports of manufactures has now fallen once again. Indeed relative to EC imports as a whole Africa's share has fallen by 50 per cent since 1970. The most striking features of Africa's imports from the EC is the increased dependence on imports of foods. Imports of food and raw materials have squeezed out imports of manufactures which are needed to build up the infrastructure and productive base for development.

Financial Flows

Table 4 shows that direct investment flows towards Africa have steadily declined over the second half of the 1980s. While Africa's share of foreign direct investment rose from 0.6 per cent in 1980 to 5.3 per cent in 1985, it decelerated to 2 per cent in 1988. This is a clear evidence of a diversion of investment from Africa in favour of the EC. The foreign direct investment figures fluctuate considerably from year to year. This fluctuation is partly due to changes in the political and economic environment and to the variability of profits and retained earnings and the valuation effects of exchange rate changes.

Table 4: Inflows of Foreign Direct Investment
(millions of US Dollars)

	1980	1982	1984	1985	1986	1987	1988
World	52212.2	44236.7	50658.9	48959.9	77459.9	118059.7	143869.9
Developing Countries	10887.0	14253.3	12046.5	13291.9	13875.0	23550.9	25096.5
Developing Africa	311.9	1410.8	1378.9	2570.6	1751.3	2227.2	2853.4
Africa's Share in World (%)	0.6	3.2	2.7	5.3	2.3	1.9	2.0
Africa's Share in Developing Countries (%)	2.9	9.9	11.4	19.3	12.6	9.5	11.4

Source: United Nations, Centre on Transnational Corporations Based on International Monetary Fund. Balance of Payments Tape, Nov. 1989 and information from OECD, *Development Co-operation* (Paris, OECD, 1991).

Another area of concern to some African countries is their monetary relations with European countries. The fixed exchange rate within the franc zone has played a great role in directing investments towards its African members by providing guarantee to outside investors. Despite several assurances, none is currently able to predict what the future of the CFA zone will be: the European monetary union is unlikely to leave room for special relationship between French franc and the CFA franc. A monetary instability would adversely affect the economies of African members of the franc zone.

Single Market Trade Creation versus Trade Diversion

The essence of the European Single Market is production cost reductions for EC producers arising from scale effects and the elimination of sources of inefficiencies in the current imperfect customs union. Hence, EC productivity and competitiveness will increase and this will be reflected in downward pressure on EC producer prices. The price effect of 1992 will imply "trade diversions" as EC producers become more competitive and intra-EC trade increases to the detriment of extra-EC trade. At the same time, price declines and accelerating economic activity will raise real incomes and this will lead to "trade creation" which will benefit African exporters.[1]

Trade Creation

According to the simulation results obtained by Cecchini, the trade creation of the Single European Market (SEM) may once-and-for-all increase the EC's GDP by an estimated 4.5 to 7 per cent yearly; while consumer prices could go down by 6 per cent.[2] It seems that much of the impact of investment in 1992 on EC may have already taken place, since firms have been preparing for the SEM by rationalizing and restructuring their productive apparatus. In addition, the SEM is founded on the belief that the EC must make a quantum leap in productivity if it is to compete effectively with the USA, Japan and the Newly Industrialized Countries (NICs) but this also means an improvement in competitiveness vis-a-vis the other developing countries' exporters. As a result, the economic growth will rise and so will the standard of living of European people. With the increase in income, the demand for imports will increase. Hence exports from non-member countries including those of raw materials can be expected to rise by an annual rate of 7 per cent in volume terms.

However, the trade creation for Africa will be most important in exports of fuels. As Table 3 indicates, nearly 60-70 percent of Africa's exports come from fuels; that is, oil exports from Nigeria, Libya, Algeria, Egypt, Gabon, and Angola, and natural gas exports from Algeria. Table 5 shows that trade creation for African products will be ECU 1,347 million or 5.2 per cent of exports. Without the contribution of fuels, trade creation would only sum to ECU 423 million or 3.9 per cent of African non oil exports. The low income elasticity of primary products means that although African exports of these primary products to the EC are more than double that of manufactured products, the trade creation effect is approximately equal for the two categories. In other words, the demand for raw materials will not be boosted to the same extent as the aggregate increase in income and demand due to

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1 In the classical theory of economic integration, trade diversion or trade creation occurs when a common external tariff replaces national tariffs of countries participating in the customs union. The internal market programme does however not deal with tariff barriers but with the breakdown of nontariff barriers inside the EC. In this way "trade creation" is used for the increase in extra-EC imports stimulated by the rise in EC output or incomes.

2 See Cecchini Paolo, *The European Challenge 1992: The Benefit of a single Market* (Aldershot: Wildwood Press, 1988).

low material intensity of production process in Europe.[3] Even this limited increase in demand will mainly benefit those developing countries that can offer their products competitively and are capable of adapting to change in demand (i.e. Asian countries), since most African producers are seemingly unable to quickly respond to emerging opportunities and generate sufficient supply to take advantage of the expanding market shares. Similarly, additional demand for consumer goods will be of great advantage to those countries where the process of industrialization is well advanced NICs.

Table 5: Trade Creation and Trade Diversion of African Exports to the EC

A) Trade Creation	Income Elasticity of demand	Trade Creation ECU Million	% of Exports
Food Items	0.46	101	2.3
Agric. & Raw Materials	0.80	49	4.0
Ore and Metals	0.70	62	3.5
Fuel	1.22	924	6.1
Manufacturing	1.32	207	6.6
Total		1347	5.2
B) Trade Diversion	Diversion Elasticity	Trade Diversion	
Manufactures	1.52	-239	-0.9
C) **Total:** Trade Volume Change		1108	4.3

Source: Michael Davenport and Ch. Stevens, "The Outlook of Tropical Products", *op.cit.*

Trade Diversion

The redirection of trade away from traditional suppliers and towards partners of EC members, analogous to the redirection that occurred after the initial elimination of internal tariffs, is called the "Trade diversion" effect of 1992.[4] In the African context, the trade diversion is likely to have a major impact in the manufacturing sector. It is not likely to operate in primary products exported by Africa to EC since the EC is not itself producer of these products.

3 The income elasticity such as calculated by Davenport and Stevens is very low for tropical products; See Davenport Michael and Christopher Stevens, "The Outlook for Tropical Products", in C. Stevens and D. Faber (eds), *The Uruguay Round and Europe 1992: Implications for Future ACP/EC Cooperation*, European Centre for Development Policy Management, Maastricht, pp. 5180.

4 The term "Trade diversion" is used to refer to the total displacement of imports from suppliers outside the EC to those within regardless of whether that displacement is directly occasioned by the elimination of intra-EC barriers (trade diversion in the strict trade theory sense) or other 1992 related cost reductions in the EC.

As can be seen from Table 5, trade diversion in manufactures is estimated at somewhat more than ECU 200 million for the sub-Saharan Africa's manufactures and diversion is likely to be concentrated in chemicals whose high "diversion elasticity" stems from the potential for economies of scale and other available gains from restructuring of the industry in the EC. North Africa will suffer from trade diversion on manufactures, refined oil, chemicals and machinery and transport equipment that it used to export to European countries.

According to Cecchini's study, production and distribution costs are expected to be reduced in the SEM, due to increased competition among EC producers, the rationalization of plants, economies of scale and other advances in efficiency. These cost reductions are estimated at 3 per cent in agriculture and 4-6 per cent in manufactures and will therefore have positive impacts on African import prices. In addition, reductions in EC export prices on world market might in some cases bring down the prices charged by non-EC suppliers, by forcing them to engage in restructuring to capture economies of scale, or to reduce X-inefficiencies in production or producer rents. However, the link between lower EC costs and African import prices depends on a large number of factors, some of which are themselves enmeshed in the 1992 process. For example, the degree of industrial concentration is important in determining the extent to which cost reductions are passed on to final consumers. Also important is the degree to which EC producers can discriminate price between the internal and the world markets. To the extent that 1992 leads to the restructuring, it may increase the concentration of EC industry and thus oligopolistic power. Moreover, it might be argued that since 1992 is all about maintaining the EC's competitive position in the world economy, it will not offer a significant cheaper source of imports for the African countries. At best it will meet the competition from Japan, the NICs and the newly emerging nations of South-east Asia and so on.

Terms of Trade

The terms of trade gains are unlikely to occur in those primary goods where the EC is a relatively small exporter and has little impact on world prices. In the case of capital goods, the only primary goods in which the EC is a major exporter, the EC tends to "dump" large quantities on the world market and thus depress the world prices. But changes in productivity in the production of CAP goods (goods arising from common agricultural policy) are determined in the main by a combination of technological changes and structural subsidies on the supply side and the administered price systems with its panoply of incentives to produce and penalties for overproduction on the other. The impact of the SEM on productivity in the CAP sector will be insignificant unless there is a major shift to a market which seems improbable.

As a result of these considerations, reduced prices have only been included in the case of manufactured exports to the less developed countries, and then only the reductions associated with the direct effects of the SEM on costs. That is, the efficiency gain from abolishing internal borders, member state public procurement restrictions and national standards have been included while those from the restructuring of production in particular economies of scale, reductions in X-inefficiencies and monopoly rents have not.[5] The former set of export price reductions on manufactures as calculated by Cecchini were then weighted by Less Developed Countries (LDC) imports from the EC to arrive at an average reduction in LDC imports price of 1.6 per cent. There will also be a termsoftrade effect from higher prices as higher EC demand pushes up world prices for goods for which there is an efficient international market. This gain will depend on the share of the EC in LDC exports, the income elasticity of the demand and the price elasticities of import demand and export supply.

Table 6: Terms of Trade Effects for Africa

A) Rise in Export Values from increase in primary product prices:	EC Share in LDC exports (%)	Increase in World demand (%)	Increase in World price (%)	Terms of Trade Gains to Africa ECU Million	% Export
Food Items	29.9	0.7	0.4	30	0.4
Agric.Raw Materials	26.0	1.0	1.0	24	1.0
Ores and Metals	30.2	1.1	1.0	31	1.0
Total				85	0.3
B) Reduction in Import Values from lower EC export prices:	African Imports from EC ECU Mil.		Reduction in import prices (%)		
Manufactures	22194		2.03	451	1.7
C) Total: Terms of Trade Effects				536	2.1

Source: Michael Davenport and C Stevens, "The Outlook of Tropical Products", *op.cit.*

Table 6 gives the terms of trade effects for developing Africa. Fuels are not included in these effects since supply from each oil-producing country is primarily determined by the OPEC quota systems, which means that output is no longer price-sensitive even though there may be considerable "cheating" on the quota themselves. Putting together the different trade effects, the net gain to Africa is in the order of plus ECU 1.6 billion, based

5 See Cecchini, op.cit.; and Cawley R. and Michael Davenport, "Partial Equilibrium Calculations of the Impact of Internal Market Barriers in the European Community", in *Studies in the Economics of Integration* Vol 2 (brussels: Commission of the European Communities, 1988), pp. 487548.

on 1987 trade data. This is about 6 per cent of African exports in that year. Of the gains more than half derives from increased volumes of fuel exports to the European Community and so will be concentrated in a few oil and gas producers in North Africa, Nigeria, Gabon, and Angola. Balance of trade creation in manufactures is estimated to be more than offset by trade diversion. Thus, the 1992 programme is not likely to give a net boost to Africa's industrialization. On the other hand, most of the terms of trade effect is the reduction in the price of EC manufacturing exports, though this is also the most uncertain of the estimates.

Thus, individual African countries will be affected in different ways by trade creation, trade diversion and the terms of trade effects associated with Europe 1992. Table 7 gives their impacts for five selected countries: Morocco, Tunisia, Cote d'Ivoire, Kenya, and Zimbabwe.

Table 7: Estimates of Trade Creation, Trade Diversion and Terms of Trade Effects for Selected African Countries in 1987

	Morocco	Tunisia	Cote d'Ivoire	Kenya	Zimbabwe
A) Trade Creation					
Primary Goods	23.7	26.4	41.1	9.2	9.5
% Exports to EC	3.1	5.0	2.7	2.3	3.1
Manufac. goods	99.0	96.4	11.8	5.1	14.3
% Exports to EC	9.6	9.6	9.3	9.6	9.3
Total	122.7	122.8	52.9	14.3	23.8
% Exports to EC	6.8	8.0	3.2	3.2	5.1
B) Trade Diversion					
Total	105.9	107.9	15.8	7.4	19.6
% exports to EC of Manufac.	10.2	10.8	12.5	13.8	12.7
C) Terms of Trade Effects					
Total	32.8	22.0	18.0	8.2	7.6
D) Overall Total	49.5	36.9	55.0	15.1	11.8
% exports to EC	2.7	2.4	3.3	3.4	2.5

Source: Michael Davenport and C Stevens, "The Outlook of Tropical Products", *op.cit.*

Sectorial Issues

Certain specific aspects related to the technicalities of the completion of the Single European Market could also be of importance to African countries. These basically cover the envisaged removal of quantitative restrictions in intraCommunity trade, the harmonization of indirect taxes, and the uniformization of technical standards.

Removal of Quantitative Restrictions

The specter of "Fortress Europe" relates to the post1992 treatment of the many remnants of national trade policies of member States. A hard-core of national quantitative restrictions remain in place mainly for so-called sensitive produce categories such as textiles and clothings, electronics, automobiles and other light manufactured products. These restrictions are applied under article 115 of the EC Treaty which allows member States to introduce import quotas and control the flow of indirect imports (through other EC members). African exports of manufactures have been particularly badly hit by the application of Article 115. The reinforcement of such restrictions in the free circulation of goods is only possible by physical border control.

After 1992, these restrictions will be removed and Article 115 will be abolished. However, it appears most certain that, for sensitive products, some form of quotas system will be maintained. The new mechanisms which will be implemented are still being debated and this has raised considerable concern, particularly in African countries.

Agricultural Products

As shown earlier, for most sub-Saharan countries, primary commodity exports to the EC are sizeable. In itself, the completion of the internal EC market would have no negative impact on primary commodity exports of the African countries, since the Common Agricultural Policy (CAP) will not be directly affected and most primary commodity exports to Africa are noncompetitive with EC suppliers. Incidences of the remaining import restrictions in the EC have practically disappeared and do not concern Africa. In fact at the Gatt Uruguay Round, the EC proposed to remove all national quantitative restrictions for tropical products, with the exception of bananas. In the case of Africa, trade diversion for primary commodity exports is thus most unlikely to occur. Trade creation, however, could be substantial particularly for those tropical products with higher income elasticities.

The envisaged dismantling of quantitative restrictions has a bearing on only 11 major agricultural products exported by African countries.[6] The fact that, in most cases, such restrictions are currently not enacted, save for bananas and rum, indicate that their removal is not going to significantly affect trade prospects for African countries. As for bananas, exports will continue, most probably to be regulated by the existing banana protocol or similar arrangements characterized by restricted circulation of that product among community members. Due to the difficulties of reconciling too many contradictory interests, this segment of trade is unlikely to be liberalized soon.

The restrictions of agricultural products under Article 115 have been limited to products such as bananas, potatoes, tomatoes and honey. In the

6 These are: Cocoa, coffee, cotton, groundnut, tobacco, tea, sugar, sisal, bananas, rubber, palm oil.

case of African countries, restrictions have been applied for some items as shown in Table 8. Morocco, Cote d'lvoire and Senegal benefitted more from their privileged access to the French market than from their access to other EC markets. Egypt is likely to gain market share in potatoes and beans. Kenya will lose its privileged access to France for its bean exports while gaining access to the French pineapple market at Cote d'lvoire's expense. Britain provides a guaranteed market for unlimited quantities of bananas from the English-speaking Caribbean; France and Italy provide similar guarantees for the French overseas departments, Cameroon and the Cote d'lvoire; and Italy for Somalia. Thus, the privileged position of the ACP and EC suppliers is not compatible with the SEM: the current 20 per cent preference margin would not be adequate to sustain ACP or EC exports in a free market. Most of the protected producers are smallscale and relatively inefficient and, even with major restructuring of the industry, their costs would remain considerably higher than those of the large plantations of Central America, Colombia and Ecuador.

Manufactured Products

The manufactured products have been concerned mostly with the export of clothing and textiles to the EC countries. The African countries (particularly sub-Sahara) are not subject to the MFA restrictions since they belong to the group of ACP States which enjoy preferential treatment. But manufactured products do not constitute the major exports of African countries as was shown in Table 3. Besides, they concentrated only in few sub-Saharan countries like Mauritius, Zimbabwe, etc. whereas the North African countries (i.e., Egypt, Tunisia and Morocco) which have expanded their manufacturing trade with the EC are subject to restrictions. With the removal of quantitative restrictions, these countries will have to compete more aggressively on those EC markets where lowercost producers have hitherto been restricted.

The trade regime which will emerge after 1992 will depend on the MFA V negotiations following the expiration of the MFA IV in mid-1991 as well as on the Uruguay Round where proposals are being discussed to bring textile products back under GATT. It is possible that under a new MFA V, EC quotas are maintained while member state shares or sub-quotas could be abolished as they depend on intra-EC border controls and are implemented under Article 115. With the elimination of such articles, African MFA exporters, particularly those from North Africa, will gain from the elimination of member state sub-quotas where utilization of EC's quotas is low while that of national sub-quotas is high. Thus, depending on their current quota utilization, the developing countries could be expected to increase their volume of MFA produce exports to the EC, although such an increase may be offset by a downward pressure on prices resulting from high competition between MFA suppliers including EC based suppliers. Thus, the total net impact on export earnings might or might not be positive.

Table 8: Import Restrictions on Horticultural and Fishery Products

Products	Restricting EC Member States	Exporting Countries: Restricted	Exporting Countries: Unrestricted
Tomatoes	Benelux	Morocco	
	Greece	Morocco	
Beans	France	Egypt	Morocco Burkina Faso Senegal Kenya
	Greece	Egypt Morocco Burkina Faso Senegal Kenya	
New Potatoes	All except UK	Morocco Egypt	
Pineapples	France	Kenya	Cote d'Ivoire
Tuna	France	Mauritius Senegal	Cote d'Ivoire
Black Skipjack Preserved	France		Cote d'Ivoire
Orange Juice	France		Morocco
	Italy	Morocco	

Source: Michael Davenport and C Stevens, "The Outlook of Tropical Products", *op.cit.*

Harmonization of Indirect Taxes

The harmonization of internal taxes with the EC as one of the elements of establishing the unified market is expected to contribute to a greater mobility of goods. In principle, it can be assumed to be across the board. However, at this stage, it is very difficult to assess the impact of this measure on African exports as well as other non-member states. But one of the measures proposed in this respect by the EEC in the Uruguay Round may have a considerable influence on such trade. It relates to the idea of phasing out or substantially reducing the excise duties on coffee, cocoa and tea. The implementation of this proposal may lead to an important fall in consumer prices and, hence, greater demand for tropical beverages in the common market countries. This may represent one of the few segments of the 1992 market integration where African countries can expect real possibilities for growth in exports for their products, provided that they can improve their competitiveness. Furthermore, the demand for the products concerned is not subject to a great deal of elasticity. Table 9 illustrates the different effects indirect tax harmonization can have on price and volume of exports of coffee, since coffee constitute the largest single commodity export of Africa, after fuels, to the EC.

Table 9 - Effects of Tax Harmonization on Coffee

	Values/Per cent
Effects of Tax Harmonization	
Current EC weighted average excise tax on coffee	18.2
Current EC weighted average VAT rate	6.7
Current EC weighted consumer tax rate	26.2
Harmonized EC VAT rate	5.0
Reduction in EC average tax rate	16.8
Change in EC imports (vol.)	2.1
Change in non-EC world imports (vol.)	-1.7
Increase in EC imports (Million ECU)	395.2
Increase in the rest of world imports (Million ECU)	256.5
Increase in total exports (Million ECU)	651.6
Increase in total exports (Per cent)	6.3
Effects of Increase in EC GDP (Demand)	
Change in EC imports (Vol.)	2.4
Increase in World coffee prices 1.3	
Change in nonEC world imports (vol.)	-0.3
Increase in EC imports (Million ECU)	167.3
Increase in rest of world imports (million ECU)	51.4
Increase in total exports (Million ECU)	218.7
Increase in total exports (per cent) 2.1	
Total	
Increase in EC imports (Million ECU)	562.5
Increase in rest of world imports (Million ECU)	307.9
Increase in total exports (million ECU)	870.4
Of which:	
Cameroon	9.5
Cote d'Ivoire	26.8
Ethiopia	15.0
Kenya	17.7
Uganda	22.3
Zaire	12.0
Africa Total	142.4
Increase in world price	7.7
Increase in total exports (volume per cent)	0.9
Increase in total exports (value per cent)	8.6

Source: Michael Davenport and C Stevens, "The Outlook of Tropical Products", *op.cit.*

While the EC in the context of 1992 will move towards harmonization of tax rates, the precise outcome of, which are yet unknown, the intention is to approximate VAT and excise tax rates. A likely outcome is that the excise taxes which vary significantly across EC countries will be abolished altogether. This would particularly benefit tropical beverage exports, namely coffee and cocoa.

Uniformization of Technical Standards

The problem of technical barriers could be tackled through harmonization and mutual recognition of existing standards and rules. However, the African countries fear that their exports to the EC will be adversely affected by the slew of harmonized technical standards, particularly those relating to exports of plants, fish and meat, and their various products. It is likely that health and sanitary standards for food imports in the EC will rise, and this is expected to affect much of African food and processed-food exporters since most African countries lack appropriate investment programmes to modernize the hygenic processing of these products. The elimination of technical barriers to trade inside the EC and the harmonization of technical standards should make the EC market more transparent for African exporters of primary products. This should allow possible cost-reducing scale effects as larger shipment entering any one of the EC members could be distributed freely across the EC.

It is expected that, after 1992, EC technical standards for manufactured products will be higher than they currently are in some member countries. This could hurt the African countries which in the past have shown great flexibility at adapting their products to market requirements. However, the simplification of procedures on content measures and labelling and the reduction of bureaucratic protectionism associated with standard certification should benefit African exporters of manufactures as they will be less dependent on any national bureaucracy to import in the EC market.

Triangular Trade Relations

The EC's future trade policy will depend more on the result of current Uruguay Round negotiations. Little is known so far as to the outcome of the GATT negotiation, since tariff preferences will become increasingly less relevant following MFN tariff cuts. However, GATT's Article VI remains imprecise on the issue of anti-dumping which can be used by the EC to transfer some of the adjustment burden of the single market to African producers. Nor is it clear as to how the EC will deal with the on going globalization of production and with foreign producers manufacturing or assembling in the EC as this may affect foreign direct investment both in the EC and in developing countries.

Europe 1992 gives Africa a challenge to look for more trade opportunities other than the traditional ones. Complementarities of demand between the African countries and East European countries can be fundamental for the expansion of the triangular trade between South-West-East. These complementarities are a function of the existing structural complementarity of their economies, which is as yet of inter-branch nature than in East-West relations, where patterns in inter-branch specialization prevail. In effect, the economies of most African countries were and still are heavily dependent on exports of few primary products (See Table 3), which are also in great demand in the East European countries, and for a long time, where channel to them through the intermediary of the developed market-economy countries, namely the EC countries.

On the other hand, African countries building up their infrastructures and implementing various development projects require machinery and equipment which are available on favourable terms in the East European countries. In a number of cases the expansion of this trade has been stimulated by the removal of discriminatory import licensing requirements for commodities originating in those East European countries. In addition, although, as a rule, prices for mutually delivered commodities are set on the basis of the world market prices for similar goods, the developing countries have in many cases been offered a higher unit value for their primary product exports. In the initial stage of their trade relations, the partners from both groups of countries could find it mutually advantageous to opt for clearing payment arrangements, which can help them to expand and diversify their trade exchanges without resorting to hard currencies and with the mutual granting of most favoured nation treatment in all matters concerning trade relations.

Thus, a special form of economic cooperation that can be devised and which has a well established position in international economic relations is the so-called East-West co-operation in third countries, or "Triangular Trade Co-operations", whereby the African countries increase the production and processing of their raw materials and sell them directly both in EC and East European markets; the East European countries including the Soviet Union sell their abundant semi-finished products such as durable construction materials, steel and manufactured inputs, including agricultural and industrial equipments, tractors, transport equipments, trucks, aircraft, trailers and ships to African countries[7] and the foreign exchanges they get from this mutual trade allow both African and East European countries to import fine finished goods and advanced technology from the EC and other industrialized countries (USA, Japan, Canada). However, the failure of African businessmen to take advantage of these trade opportunities may prompt businessmen from the EC (as it is the case now) to buy these semi-products in East Europe at a cheaper price and re-sell them to African countries at the world (higher) price. The buying power of the East European countries will depend on their export capability and the level of their foreign currency earnings for purchasing European and American products.

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7 Since they may find it difficult to sell them to Europe and USA because of the relatively low quality of such products which cannot compete in Western markets and the EC is unlikely to disband its steel plants to buy cheap steel from East European countries.

Therefore, trade relations should be established between African countries and East European countries, whereby Africa supplies their markets with tropical products, mainly processed agricultural products including processed meat and fish which are of great demand in East-Europe, and the East in return supplies Africa with cheap semi-finished and investment products to enhance its productive capacity and foreign currency to acquire finished goods from the West (EC). These East-South trade relations are crucial since it will not only accelerate the reconstruction of the East European economies, but will also stimulate the economic growth of African countries so that markets in both Eastern Europe and Africa can import advanced Western European products and technology. This type of cooperation can accelerate the development and industrialization process of the African countries, as they will be able to receive the relatively highest possible technology at the lowest cost when building up their infrastructure or production capacity. In addition, the African client does not become dependent on only one source of technology and supplies.

The Effects on Trade in Services and Capital Flows

Services

The European community has yet to spell its own policy for the internal market and define its approach towards the developing countries regarding the situation in the sector of services which remains very unclear. The liberalization of markets for services and financial transactions will primarily benefit those countries that are in a position to meet the growing demand in that area because this may imply a diversion of capital from investment in developing countries. Western Europe accounts for about two thirds of imports of shipment, travel, and other services. The services exports of African countries are dominated by travel, tourism and passenger transports.

With respect to tourism, price and income effect will combine and appears to generally favour an increase in tourism exports from African countries. Increased competition will put downward pressure on the prices of tourist services in the EC, but this will probably be more than offset by a proposed value added tax on intra-European travel and by expected labour cost increases in the tourist areas of the EC which are competitive with African tourism (mainly for the North African countries). Hence, the ratio of internal to extra-EC prices of tourist services is likely to increase. In addition, the acceleration of income growth in the EC as a whole should favour African exporters of tourist services.

In the area of transportation, competition in aviation which has become an important market for several African countries, can be expected to intensify significantly as EC airlines merge and the relative bargaining power of African carriers for landing rights and airport slots is reduced. At the same time, EC carriers could become more competitive worldwide. Indeed, European airlines have concluded among them, agreements aimed at lowering their operating costs and thus improving their effectiveness. At the governments' level, agreements have been elaborated by the European Commission for Civil aviation on fares and sharing of capacities with a view to generating greater competition; as a result, deregulation is spreading in Europe. Privatization of airlines is a dominant trend and negotiations on mergers are under way. Although the Single Act does not apply only to the air transport, it is likely to induce air transport liberalization for the following reasons: (1) the emergence of an international area with no internal frontiers, pursuant to Article 13 of the Single Act; (2) Community institutions will liberalize air transport, in application of Article 16 of the Single Act.

Owing to the liberation of Europe a few major companies will emerge which will be more competitive than smaller ones of other regions. It is likely that African airlines will no longer enjoy the fifth freedom traffic right, while their European counterparts will probably continue to enjoy such rights which they have been generously granted throughout Africa. There are signs that the whole of Europe may be considered a single territory as regards the application of air transport agreements. This may lead to confining African airlines to very few points in Europe, while European airlines will probably continue to operate throughout Africa.

With regard to maritime transportation, the EC commission has the mandate to act against unfair pricing by Third World country suppliers. Thus, little changes can be expected in the maritime transportation sector after 1992 as it is already well integrated at the community level.

Direct Investment Flows

The completion of the single market is likely to direct more capital towards financial speculation and more profitable "openings", to the detriment of useful investments in developing countries. In fact disinvestment in Africa is a trend which is gaining momentum as Table 4 shows. The unification of Europe by 1992 will give rise to severe competition between firms selling to Europe. This will result in more selective investments both inside and outside the EEC. In this respect, Africa has little chance to attract industrial investments, as other regions have decisive comparative advantages. This is, in particular, the case for Eastern European countries.

Indeed, the Eastern European countries are in a position to attract many industrial plants which, for various reasons (pollution, high salary cost, etc.), the EEC would like to install outside its territory. First the basic infrastructure (roads, railways, channels, electricity, telecommunications, etc.) exists in Eastern Europe. Second Eastern European countries have experienced of industrialization which Africa, to a great extent, still lacks. All Eastern European countries need is to adopt flexible management methods and new technologies capable of adjusting to market economy requirements. Moreover, the recent establishment of the European Bank for Reconstruction and Development will facilitate the evolution of Eastern European economies towards greater competitivity and adaptability.

In view of the above, it is likely that the stagnation, if not decline of direct investment in Africa noticed between 1975-1980 and 1985-1987, will persist. Africa is becoming increasingly less attractive investment-wise because of its low competitiveness and the socioeconomic crisis which seems to be degenerating into political instability.

Within the EEC itself, the removal of non tariff barriers will result in the increase of investment, employment and growth. The costs of production will be decreased because of economies of scale associated with larger markets; the prices of goods will be lower because of greater competition among producers of similar goods. The profit of firms will be higher and this will stimulate increased investment in Europe and have serious implications for the flow of investment to African countries. Also the new regulations related to health and technical specifications governing imports of African products will discourage investment in manufacturing for export from Africa to the EEC.

Conclusion

The composition of the European single market is a major challenge both to the EEC member states and to the outside world. African countries must feel especially concerned, as they seem ill-prepared, for the tremendous move which is underway in Europe - their principal economic partner. Some measures need to be taken and in some cases steps have already been taken towards better preparation of Africa.

In the field of trade, Africa has no choice but to improve the competitiveness of its products; it is most unlikely that the New Europe will continue to adopt or maintain any special regime of preferences for African countries. As shown above, despite the preferences granted under the successive Lome Conventions, Africa's share in exports to the EEC has steadily declined mainly because of the lack of competitiveness of African products (both in terms of prices and quality) and the technological change affecting the production process in Europe. As regards competitiveness, Africa's productivity is very low, which results in high production costs; moreover, the quality of many African products (mainly the manufactures) is far from meeting European standards. Concerning the technological evolution, one of its most important effects is the reduction in quantity of raw materials required or the substitution of natural ingredients by bio-technological products which are less expensive owing to economies of scale and faster production process. For all these reasons the demand for African commodities tends to diminish and Africa may not benefit from the expected growth in Europe in 1992 and beyond. The African countries may find it profitable to diversify their trade cooperation in the world to include also the "triangular trade", between them, the EC and the East European countries, as the ideological constraining factor is no longer valid nowadays.

However, the deadline set for the completion of the European single market may be too close for Africa to find adequate response to its effects by 1993. This underlines once more the risks related to the excessive dependence on external markets. But in the long run, the European single market may give Africa a chance to explore and take advantage of its domestic market as called for in its continental programme: The Lagos Plan of Action (LPA) and the Final Act of Lagos which calls for the self-sustained development and economic integration at the subregional and regional levels.[8] The near successful completion of European internal market may give economic integration in Africa an impetus if basic conditions, especially the political will, are met so as to acquire a strong bargaining power in the world economy.

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8 See OAU, *The Lagos Plan of Action for Development of Africa 1980-2000* (Geneva ILO, 1982).