



Centre for ASEAN Studies



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The Trade Diversion Effects on ASEAN of the European Union Enlargement with EFTA Countries and the Association Agreements with Eastern Europe¹

Ludo Cuyvers

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1. Introduction

The creation of the European Single Market in 1993 has caused much fears in the ASEAN countries about its impact on their economies through trade and investment diversion. These fears have proven to be uncorroborated by the actual developments. In a previous paper (Cuyvers, De Lombaerde & Van Den Bulcke, 1994) we reviewed the existing literature and statistical evidence on this issue and concluded that the fears in ASEAN for the effects of “Fortress Europe” were unfounded.

Apart from the creation of European Single Market, which is a purely intra-EU affair, involving the removal of all remaining barriers (physical, technical and fiscal barriers) to intra-EU trade between the twelve EU countries in 1992 (henceforth indicated by EU 12), two other developments on the European scene should cause more concern, i.e. the accession to the EU of the former EFTA countries Austria, Finland and Sweden in 1995 (henceforth indicated by EFTA 3), and the European association agreements with Hungary, Poland and Czechoslovakia of 1991, and with Romania and Bulgaria (henceforth called European Agreements countries, or EACs) of 1993.

Because of the EU accession of Austria, Finland and Sweden, and the European agreements with Bulgaria, Czechoslovakia, Hungary, Poland and Romania, the EU 12 is granting preferential access to goods from these countries. As the corresponding ASEAN products do not get the same preferences, the products from the former are gaining competitive advantage relative to these from ASEAN.

The present paper attempts an assessment of the likely trade diversion effects of the enlargement and the association agreements with the EFTA 3 and European Agreements countries (EACs), following the methodology developed by Kreinin and Plummer (1992). Using this methodology, it is checked first which ASEAN export products to the European countries involved (EU 12, EFTA 3 and the EACs) are experiencing competition from one of the three European parties (e.g. Finland) involved on the other two European markets (e.g. EU 12 and the European Agreements countries). Subsequently, for the products that are supplied to the EU both by ASEAN and/or EFTA 3 and the EACs, the change in the degree of tariff and NTB protection on the EU market towards the respective products is considered, before and after the accession of EFTA 3 and the conclusion of the association agreements with the EACs. The same procedure is conducted for the individual EFTA 3 countries and the EACs. This methodology will allow us to draw up a list of the ASEAN products, that are affected most by the accession of EFTA 3 and the association agreements with Eastern Europe, and to indicate the share of these products in ASEAN trade flows with the EU 12, the EFTA 3 and the EACs.

Of course, ASEAN trade with the EU, the EFTA 3 and the EACs will also be affected by the enhanced economic growth in these groups of countries, as a result of more economic integration. In this paper, we restrict ourselves to the trade diversion effects, leaving the trade creation effects of the EU enlargement and the European Agreements out of the picture.¹

¹ The main reason is that an analysis of the trade creation effects for ASEAN entails the use of an entirely different methodology, than the one used here for analysing the trade diversion effects.

2. Trade policies in Europe before and after the accession of EFTA 3 and the European Agreements with Eastern Europe

Since 1971, the European Union is applying the Generalised System of Preferences (GSP) to the products originating from developing countries, including the ASEAN countries. Since January 1, 1995, a new GSP is introduced, allowing for margins of preference (MOP) that differ between products and countries of origin. According to the sensitivity of the product the margin of GSP preference is 35, 70, 85 or 100 %. This MOP is first halved and abolished one year later for countries with a 1991 GNP of over USD 6,000, among which the ASEAN countries Singapore and Brunei (EC, 1994).

In 1973-1974, the European Union concluded free trade agreements with the individual EFTA countries (Austria, Finland, Iceland, Norway, Sweden, Switzerland and Liechtenstein), that covered industrial products and regional accumulation of origin. The agreements did not, however, cover agricultural products. In 1992, the EU reached an agreement with the EFTA countries to establish the European Economic Area entailing in addition to free trade, a.o. the free movement of people, services and capital.

In July 1989, Austria introduced an application for EU membership. This was followed by the applications of Sweden in 1991, and these of Finland, Switzerland and Norway in 1992. No sufficient majority could be found in Switzerland and Norway for EU membership, however. The EFTA 3 countries became EU members on January 1, 1995, date when they also adopted the EU common external trade policy. One of the consequences is that the EFTA 3 is also applying the EU Generalised System of Preferences and that they are also bound by the European association agreements, the agreements with the Mediterranean countries and the Lomé Convention with the ACP-countries.

Until the end of the 1980s, the EU applied important trade barriers to imports from the communist countries of Eastern Europe, but since 1989 and the fall of the communist regimes in Eastern Europe, the EU has opened its market gradually for these products. In addition, imports in the EU from Hungary and Poland since 1990, and from Czechoslovakia and Bulgaria since 1991, were granted preferential access under the GSP.²

In 1991, association agreements were signed with Czechoslovakia, Hungary and Poland, and in 1993 with Bulgaria and Romania, that aim at the creation of a free trade area for industrial products (agricultural products are excluded) within maximum 10 years. From March 1, 1992, all quantitative restrictions on the imports of industrial products from these EACs (excluding textiles and the so-called ECSC products)³ were removed, as well as import tariffs on most of these imports (the remaining tariffs will be removed during periods, depending on the sensitivity of the product, of 1 to 5 years). On the other hand, tariff and non-tariff barriers in the European Agreements countries against EU imports have to be dismantled within 7 to 9 years (10 years for automobiles in Poland) (GATT, 1993 : 37-38).

² Romania was granted GSP status already in 1974.

³ ECSC stands for European Coal and Steel Community

The EU will also remove import duties and quantitative restrictions on textiles from the EACs in 6 and 5 years respectively.⁴ EU tariffs and quantitative restrictions on coal imports from the EACs will be abolished within one year (except 4 years for Spain and Germany and for certain products). Trade liberalisation in agricultural products between the EU and the EACs is, however, rather modest : by and large, most of the advantages granted by the EU are these under the former GSP, but with removed quantitative restrictions. In turn, the EACs have reduced import tariffs on certain agricultural imports from the EU (GATT, 1992 : 44).

The EU 12 is an important market for ASEAN products. As is shown in Table 2.1, the exports to the EU 12 represented in 1991-1992 15.5 % of the external trade of the ASEAN countries. This EU 12-share was highest in Thailand (20.5 %), followed by the Philippines (18.2 %). The share of the EFTA 3 group in ASEAN's exports amounted to 0.6 %, which is relatively small (the share of Belgium-Luxemburg in ASEAN's exports alone is 1 %), and Hungary, Poland and Romania together accounted for hardly 0.4 %.

Table 2.1: Shares of the EU 12, the EFTA 3 and the EACs in the external trade of ASEAN countries, 1991-1992 (%)

Country/Market	EU 12	EFTA 3	EACs (*)
Brunei	9.6	0.0	0.0
Indonesia	13.4	0.3	0.2
Malaysia	14.8	0.4	0.1
Philippines	18.2	0.6	0.1
Singapore	14.1	0.7	0.4
Thailand	20.5	1.0	1.4
ASEAN	15.5	0.6	0.4

(*) Hungary, Poland and Romania

Source : IMF, Direction of Trade Statistics Yearbook 1993.

The EU, the EFTA 3 and the EACs have applied GSP preferences to ASEAN imports.⁵ In the EU, four ASEAN countries belong to the 10 countries that benefited most of the EU's GSP (EC, 1993 : 71-72). Since 1995, the EFTA 3, evidently, have adopted the EU's GSP.

3. Trade diversion effects for ASEAN

Because of the accession of the EFTA 3 and of the association agreements with the EACs, the EU is granting the imports from these countries a preferential treatment, which is not granted to the ASEAN countries. The competitive advantage of the EFTA 3 over the ASEAN countries entails duty free entry in the EU market and the abolition of the NTBs *for all products* ; that of the EACs over the ASEAN countries entails duty free entry in the EU market and the abolition of NTBs *for industrial products* only. This competitive advantage develops even if in the EU zero duties apply to ASEAN imports before and after 1995, but to EFTA 3 imports only after 1995. The degree of trade diversion to the detriment of ASEAN clearly depends on the protectionist stance of the EU towards EFTA 3 and the EACs before their accession. The accession of the EFTA 3 has, therefore, no trade diversion impact on industrial products, as these were already entering the EU market freely before 1995. Trade diversion in the EU is possible for other products if the EFTA 3 countries are competitors of similar ASEAN prod-

⁴ The Association Agreements state that quantitative restrictions on textiles from the EACs will be removed in a period which is half the length of the period, agreed in the Uruguay Round, for phasing out the Multifibre Arrangement.

⁵ We have no information whether Romania and Hungary have granted preferential treatment to ASEAN imports.

ucts, with the trade diversion effect depending on the degree of protection in the EU and the price elasticity of the import demand in the EU for the relevant products (Kreinin & Plummer, 1992). ASEAN exports to the EFTA 3 markets, however, will also be affected by the accession of the EFTA 3. The twelve EU countries are getting free entry on the EFTA 3 market, and the EFTA 3 are granting the EACs the same preferences as the EU. A similar argument holds for the European agreements which will influence the ASEAN exports to the EACs.

Using the Kreinin/Plummer methodology (Kreinin & Plummer, 1992), we have established, per sufficiently important ASEAN export product to the EU, whether or not competition is felt from the EFTA 3 or the EACs. For these products the actual EU import duties applied to ASEAN imports in 1995 and the MFN import duties were collected, in order to determine the degree of preference in the EU for the ASEAN imports at issue. The use of NTBs by the EU against the products considered is captured using the coverage ratio⁶. In addition the pre-1995 import duties applicable to EFTA 3 or EAC imports were also collected. A comparison of e.g., the applied import duty in 1995 on the relevant ASEAN exports confronted with EFTA 3 and/or EAC competition in the EU market, with these applied to similar products in 1995 as compared to the pre-1995 period, allows us to determine if a positive or negative effect can be expected.

A similar data collection was carried out for the EFTA 3 and the EACs^{7 8}. However, for lack of data on Czechoslovakia and Bulgaria, we could consider as EAC only Poland, Hungary and Romania.

In the following pages, we will comment upon summary tables per ASEAN country depicting the major effects of the accession of EFTA 3 and the European Agreements with the EACs, as can be inferred from a detailed comparison of the data in the appendix. In these summary tables, a distinction is made between the effects on trade of the respective ASEAN countries with the EU (due to the accession of the EFTA 3), the EFTA 3 and the EACs Hungary, Poland and Romania. With each of these groups of countries, ASEAN trade can be influenced by the enlargement with the EFTA 3 and by the European Agreements with the EACs, through changes in the respective TBs and NTBs.

Table 3.1 depicts the trade effects that will affect Brunei's exports to the EU 12. The following Tables 3.2 to 3.6 will also indicate prospective changes in the exports of the other ASEAN countries to the EFTA 3 and the EACs respectively, which are too small or inexistant as far as Brunei is concerned.

⁶ The coverage ratio is defined as the number of SITC 6-digit product groups to which quantitative restrictions (quota's, voluntary export restraints, non-automatic licencing and/or the Multifibre Arrangement), prepayments of duties, exchange controls, minimum prices, anti-dumping duties or countervailing duties are applied, as a percentage of the total number of SITC 6-digit products groups in the relevant SITC 2-digit product category.

⁷ The tables thus constructed can be obtained with the author on request.

⁸ We have used EU trade data at SITC 2 digit level and considered only exports of at least USD 5 million, except for Brunei where the threshold is USD 500,000. Trade data for individual EFTA 3 countries, Poland and Romania are at SITC 3 digit level and above USD 500,000. Trade data for Hungary are at SITC 2 digit level and above USD 1 million. The degree of protectionism is measured by the TBs and NTBs, comparing the import duties in the EU and in each EFTA 3 country (and EAC) on ASEAN products before 1995 and since, with the corresponding MFN duty, as well as the coverage ratio for NTBs in the EU and in each of the EFTA 3 countries (and EAC) respectively. EU trade figures are from OECD, Foreign Trade by Commodities. Trade figures for EFTA 3 and EACs are from UN, Commodity Trade Statistics, Statistical Papers Series D, relevant country issues. EU import duties are from Administratie der Douane en Accijnzen, Tarief van invoerrechten, 1989, 1991 and 1995. Pre-accession EFTA 3 import duties are from UNCTAD, TRAINS, 1992. Import duties of Romania and Hungary are

Table 3.1: Summary of trade diversion effects for Brunei on the EU market

SITC	Product category	Enlargment effects		European Association effects	
		Tariffs	NTBs	Tariffs	NTBs
66	Non-metallic mineral manufactures, construction material, etc.	0	0	0	0
71	Power generating machinery and equipment.	0	0	0	0
75	Office and ADP machines	0	0	0	-
76	Telecom and sound equipment	0	0	0	-
77	Electrical machinery, apparatus and appliances	0	0	-	0
84	Articles of apparel	0	0	0	-
87	Professional, scientific and controlling instruments and apparatus	0	0	0	0
88	Photographic apparatus, etc.	0	0	0	0
89	Miscellaneous manufactured articles, n.e.s.	0	0	0	0

We illustrate how these tables are constructed, using the simple case of Brunei as example. Table 3.1 shows at SITC 2-digit level, the 1992 exports from Brunei to the EU 12, with a value exceeding USD 500,000. The third and fourth column of Table 3.1 give per SITC 2-digit product category of Brunei's exports, the likely trade effects in the EU 12 of the EU enlargement due to changing tariff barriers and non-tariff barriers respectively, on products for which competition exists (see the data in the Appendix) from an EFTA 3 country or an EAC. The fifth and sixth column give the likely trade effects that Brunei will experience in the EU 12, due to the European Agreements. The third column is constructed by comparing the range of GSP tariffs that the EU applies to the ASEAN products within the listed SITC group, with the corresponding range of EU tariffs that were applied to the EFTA 3 imports before their accession, provided competition from an EFTA 3 country is shown to exist for the product group. If the EU tariff to an EFTA import considered was zero before 1995, the EFTA 3 accession and the consequent EU-EFTA 3 free trade will entail no trade effect whatsoever, and a "0" will be found in the third column of Table 3.1. If, however, a high EU tariff applied to an import item listed in Table 3.1, when imported from an EFTA 3 country, the trade effect of its accession to the EU can be considerable. The free trade after 1995 will cause a trade diversion effect in favour of EFTA 3 imports, to the detriment of Brunei. This is indicated by a "-" in the table. A similar comparison is made using the relevant GSP tariff range, the comparable pre-1989 EU tariff range applicable to the goods when imported from the EACs, and the tariff range since the conclusion of the European Agreements with the EACs, the result of which is shown in column five of the table.

The fourth and sixth column of Table 3.1 is constructed by comparing the coverage ratio of the most restrictive NTBs applied to the products falling under the SITC 2-digit product group considered. If this coverage ratio of NTBs to Bruneian, pre-1995 EFTA 3 and EAC imports is considerable high⁹, the abolition of the NTBs in 1995 on these imports when coming from the EFTA 3 or the EACs will also entail trade diversion, as indicated by a "-" in the cell of the table.

from GATT, *Trade Policy Review, Romania 1992*, Vol. I : 150-170, and GATT, *Trade Policy Review, Hungary 1991*, Vol. I : 211-241, respectively. EU, EFTA 3 and EAC NTBs are from UNCTAD, *TRAINS*, 1992.

⁹ Coverage ratio's of 20 pct. or more are considered here as "considerably high".

From Table 3.1 it appears that the important imports in the EU from Brunei are industrial products. As there was already free trade for industrial products¹⁰ between the EU and EFTA, the accession of the EFTA 3 will have no trade diversion effect here, as is indicated by the "0"s in the fourth column. The European Agreements with the EACs, however, will cause trade diversion against Bruneian exports, particularly for office machines, automatic data processing machines, sound and telecom equipment, electrical machines and apparatus, and garments. These negative effects should not be exaggerated, though, as Brunei is exporting only little to the EU.

The analyses of the trade effects on the other five ASEAN countries is more complicated. In a number of cases, the product groups at SITC 2-digit level that are imported from a particular ASEAN country in sufficient volume (USD 5 million or more) are also important as imports from that ASEAN country in one of the EFTA 3 countries or the EACs.¹¹ Consequently, provided competition from similar EU products can be deducted from the trade statistics, we will also have to consider and assess likely trade effects of the accession of EFTA 3 and the European Agreements on the ASEAN exports into the EFTA 3 and the EACs markets respectively.

Table 3.2 shows these various effects on the Indonesian exports. Contrary to the Bruneian case, we are confronted here with effects on the EFTA 3 and the EACs markets. Hence, enlargement effects and European Agreement effects are not only relevant in the EU, but also in the EFTA 3 and the EACs. Enlargement of the EU with the EFTA 3 might well cause trade diversion, e.g. in Finland, away from Indonesian to EU products. The same holds evidently for possibly trade diversion to EAC products. As the EACs, however, are in a state of economic transformation, with new international trade links developing more with the industrial countries, like the EFTA 3 or the EU, EAC-ASEAN trade is relatively unimportant and, hence, trade diversion away from ASEAN products to EU or EFTA 3 products marginal. In looking at the ASEAN trade diversion effects of further European integration in the EACs markets, we have restricted the analysis to European Agreement effects and, for lack of sufficiently reliable data, neglected the enlargement effects. In other words, we have assessed the likelihood of trade diversion in the EACs markets, away from ASEAN products to EU products, and neglected the trade diversion to EFTA 3 products. As Austria has longstanding trade links with the Eastern European countries, this procedure probably underestimates trade diversion on the EACs markets.

Table 3.2 shows that Indonesia will experience trade diversion in the EU, due to the enlargement of the EU with the EFTA 3. As stated already while overviewing the trade effects of Brunei in the EU market, no trade diversion in favour of EFTA 3 industrial products has to be feared, as both for tariff and non-tariff barriers EU-EFTA trade in industrial products was free before 1995. Many agricultural or agriculture-based products from ASEAN countries and the EFTA 3, however, the imports of which were confronted with the tariff and non-tariff barriers entailed by the EU Common Agriculture Policy, can now enter the EU market freely when of EFTA 3 origin. Therefore, trade diversion due to the EU enlargement with EFTA 3 is likely for product groups like meat (01), fish and seafood products (03), vegeta-

¹⁰ Industrial products belong to SITC 00, 01, 02, 03, 04, 05, 06, 07, 08, 09, 11, 12, 22, 29, 41, 42 and 43, apart from SITC 5, 6, 7, 8 and 9.

¹¹ See note 8 for the thresholds used.

bles and fruits (05), sugars and sugar products (06), as well as other processed and unprocessed products of animal or vegetable origin (29, 43).

Table 3.2: Summary of trade diversion effects for Indonesia

SITC	Product category	Trade with the EU				Trade with EFTA 3				Trade with the EACs	
		Enlargm. effect		EA effect		Enlargm. effect		EA effect		EA effect only	
		TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs
01	Meat and meat preparations	-	-	?	?						
03	Fish, crustaceans, etc.	-	0	?	0						
04	Cereals and cereal preparations					ⁱ	ⁱⁱ	0	0		
05	Vegetables and fruit	-	-	?	?	ⁱⁱⁱ	^{iv}	?	?		
06	Sugars, sugar preparations, etc.	-	-	?	?						
07	Coffee, tea, cocoa, spices, etc.	-	-	?	?	^v	^{vi}	0	0	?	?
08	Feeding stuff for animals	-	-	?	?	^{vii}	^{viii}	?	?		
09	Miscellaneous edible products	-	-	?	?						
12	Tobacco	-	0	?	0	^{ix}	0	0	0	0	0
23	Crude rubber	0	0	0	0					^x	?
24	Cork and wood	0	0	0	0	0	0	0	0		
28	Ores etc.	0	0	0	0						
29	Crude animal and vegetable materials, n.e.s.	-	0	?	0						
32	Coal	0	0	0	0	0	0	0	0		
42	Fixed vegetable fats and oils	0	0	?	0	^{xi}	^{xii}	0	0	^{xiii}	?
43	Animal and vegetable fats and oils	-	0	?	0						
51	Organic chemicals	0	0	-	0						
55	Essential oils, soaps, etc.	0	0	0	0					^{xiv}	0
59	Chemical products n.e.s.	0	0	-	0						
61	Leather and leather products	0	0	0	0						
62	Rubber manufactures n.e.s.	0	0	0	0						
63	Cork and wood manufactures	0	0	0	0	0	0	0	0		
64	Paper, paperboard etc.	0	0	0	0						
65	Textile yarn, fabrics, etc.	0	0	-	-	0	^{xv}	-	-	-	?
66	Construction materials etc.	0	0	0	0						
67	Iron and steel	0	0	0	-						
68	Non-ferrous metals	0	0	0	0						
69	Manufactures of metals n.e.s.	0	0	-	0	0	0	0	0		
71	Power generating machinery and equipment	0	0	0	0						
74	General industrial machinery and equipment	0	0	0	0						
75	Office and ADP machines	0	0	0	-	0	^{xvi}	0	^{xvii}		
76	Telecom and sound recording equipment	0	0	0	-	^{xviii}	0	0	0		
77	Electrical machinery and appliances	0	0	-	0	0	0	^{xix}	0		
78	Road vehicles	0	0	-	0						
81	Sanitary products, prefab, etc.	0	0	0	0						
82	Furniture, mattresses, etc.	0	0	0	0	0	0	0	0	^{xx}	0
83	Travel goods, handbags, etc.	0	0	0	0	0	^{xxi}	0	0		
84	Articles of apparel	0	0	0	-	^{xxii}	^{xxiii}	-	-	^{xxiv}	?
85	Footwear	0	0	-	-	^{xxv}	^{xxvi}	-	-	^{xxvii}	?
87	Professional, scientific and controlling instruments	0	0	0	0						
88	Photographic apparatus	0	0	0	0						
89	Miscellaneous manufactures	0	0	0	0	0	0	0	0		

ⁱ Negative EU trade policy effect in Sweden

ⁱⁱ Negative EU trade policy effect in Sweden

ⁱⁱⁱ Negative free trade effect in Finland and Austria, and negative and positive EU trade policy effect in Finland.

^{iv} Negative free trade effect in Finland

^v Negative free trade effect and negative EU trade policy effect in Finland and Austria, but positive EU trade policy effect for 075. Negative EU trade policy effect in Sweden

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- vi Negative EU trade policy effect in Austria and Sweden.
 - vii Negative EU trade policy effect in Sweden
 - viii Negative free trade effect, but positive EU trade policy effect in Sweden
 - ix Negative EU trade policy effect in Finland
 - x In Hungary and Romania
 - xi Negative free trade effect in Finland, Austria and Sweden, and negative EU trade policy effect in Sweden.
 - xii Negative free trade effect, but positive EU trade policy effect in Finland and Sweden
 - xiii In Poland
 - xiv In Poland
 - xv Negative EU trade policy effect in Austria
 - xvi Negative EU trade policy effect in Austria and Sweden
 - xvii Negative EU trade policy in Austria
 - xviii Positive EU trade policy effect in Austria
 - xix In Austria
 - xx In Poland
 - xxi Positive EU trade policy effect in Austria
 - xxii Positive EU trade policy effect in Finland and Austria
 - xxiii Negative EU trade policy effect in Finland and Austria
 - xxiv In Hungary
 - xxv Positive EU trade policy effect in Austria
 - xxvi Negative EU trade policy effect in Finland, Austria and Sweden
 - xxvii In Hungary and Poland

In the EU market, Indonesia has to fear trade diversion in favour of the EACs for a number of industrial products. In a number of instances this is due to the preferential reduction or abolition of tariff barriers in favour of the Eastern European countries (e.g. particular chemical products - SITC 51 and 59, textile yarn etc. - 65, electrical machines and apparatus - 77, road vehicles - 78, and footwear- 85); in other instances this trade diversion stems from the reduced NTBs that apply to EAC products (e.g. textile yarn, etc. - 65, iron and steel - 67, office machines - 75, sound and telecom equipment - 76, articles of apparel - 84, footwear - 85). Because of lacking details on agricultural trade liberalisation measures under the European Agreements, we cannot assess trade diversion in favour of the EACs for many agricultural products, which explains the many “?”s in Table 3.2 for SITC product groups such as meat (01), fish, crustaceans, etc. (03), vegetables and fruit (05), sugars etc. (06), coffee, cocoa, etc. (07), feeding stuff for animals (08), miscellaneous edible products (09), crude animal and vegetable materials n.e.s. (29), fats and oils of SITC 42 and 43.¹²

In the market of EFTA 3, the enlargement effect on Indonesia's trade can be felt through the free trade between EU 12 and EFTA 3, or through the adoption by the EFTA 3 countries of the EU common external trade regime. In a number of cases, Table 3.2 indicates trade diversion in favour of EU products due to EU-EFTA 3 free trade (e.g. prepared and canned fruits - 058 - in Finland). In other cases, it is the adoption of the EU common external trade regime that entails trade diversion in favour of EU products (e.g. feeding stuff for animals - 08 - in Sweden, tobacco - 12 - in Finland, or special yarn and textile fabrics - 65 - in Austria). For some product groups, however, the adoption of the less restrictive EU common external trade measures by the EFTA 3 countries leads to positive trade effects, i.e. trade diversion away from EU products, in favour of Indonesian products (e.g. in Austria for telecom and sound equipment - 76, some articles of apparel etc. - 84, and footwear - 85 ; in Finland for some articles of apparel, etc. - 84). In some cases, a negative “free trade” effect and a negative “EU trade pol-

¹² Being tropical products coffee, tea, cocoa, spices, etc. (07) will evidently not be confronted with trade diversion to EFTA 3 or EACs.

icy" effect coincide (e.g. for vegetable fats and oils - 42 - in Sweden). Some rare instances can be traced where negative *and* positive effects are expected (e.g. a negative "free trade" effect in Finland and Austria for vegetables and fruits - 05 , in particular prepared and canned fruits, going together with a positive "EU trade policy" effect in Finland for the same product group), which is indicated by "+/-" in the table.

Indonesia might also be confronted with trade diversion in the EFTA 3 markets, in favour of EAC products. For a number of agricultural products this trade diversion is unclear because of lacking details about agricultural trade liberalisation measures under the European Agreements (see the "?"'s in Table 3.2). For product groups such as articles of apparel in Austria and Sweden, office machines in Austria, and footwear in the three EFTA 3 countries, however, fears for such a trade diversion seem warranted.

Moreover, however marginal trade between ASEAN and the EACs is, Indonesia will not be immune for trade diversion in the Eastern European market, which seems to be holding for product groups like raw rubber - SITC 23 - in Hungary and Romania, toilet preparations, soap and cleaning products - 55 - in Poland, textile yarn, etc. - 65 - in Hungary and Poland, articles of apparel - 84 - in Hungary, furniture etc. - 82 - in Poland, and footwear- 85 - in Hungary and Poland, to which under the European Agreements free access from the EU 12 and the EFTA 3 countries is granted. A number of these products can also be supplied through intra-EAC trade.

Similar conclusions can be drawn from Table 3.3 regarding Malaysia's trade with the EU, the EFTA 3 and the EACs. Although differing in the details, the picture emerges that on the EU market, the enlargement with the EFTA 3 will induce trade diversion for various food products, such as fish and seafood (03), vegetables and fruits (05), feeding stuff for animals (08), and other food products and preparations (09).¹³ Trade diversion in favour of the EACs is much more to be feared, particularly for product groups such as chemicals (SITC 51 and 59), textile yarn, etc. (SITC 65), iron and steel, and metal products (SITC 67 and 69), office machines (75), sound and telecom equipment (76), electrical machines (77), road vehicles (78), articles of apparel (84) and footwear (85). These trade diversion patterns are clearly the same as for Indonesia.

Table 3.3: Summary of trade diversion effects for Malaysia

SITC	Product category	Trade with the EU				Trade with EFTA 3				Trade with the EACs	
		Enlargm. effect		EA effect		Enlargm. effect		EA effect		EA effect only	
		TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs
03	Fish, crustaceans, etc.	-	0	?	?						
05	Vegetables and fruit	-	-	?	?	+/- ⁱ	- ⁱⁱ	?	?		
07	Coffee, tea, cocoa, spices, etc.	-	-	?	?	- ⁱⁱⁱ	0	0	0	? ^{iv}	?
08	Feeding stuff for animals	-	-	?	?	- ^v	+/- ^{vi}	?	?		
09	Miscellaneous edible products	-	-	?	?						

¹³ According to the data also coffee, tea, cocoa and spices - SITC 07 - should be added to the list of products supplied by Malaysia that will be adversely affected by trade diversion in favour of EFTA 3. Although the EFTA 3 countries are exporting these products to the EU, no trade diversion effects are to be feared as these products are not grown in the EFTA 3 countries.

SITC	Product category	Trade with the EU				Trade with EFTA 3				Trade with the EACs	
		Enlargm. effect		EA effect		Enlargm. effect		EA effect		EA effect only	
		TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs
23	Crude rubber	0	0	0	0					-vii	?viii
24	Cork and wood	0	0	0	0	0	0	0	0		
42	Fixed vegetable fats and oils	0	0	?	0	-ix	+/-x	0	0	?xi	?
43	Animal and vegetable fats and oils	-	0	?	0	-xii	?xiii	?	0		
51	Organic chemicals	0	0	-	0						
59	Chemical products, n.e.s.	0	0	-	0	+xiv	0	0	0		
62	Rubber manufactures, n.e.s.	0	0	0	0	0	0	0	0	-xv	0
63	Cork and wood manufactures	0	0	0	0	0	0	0	0		
65	Textile yarn, fabrics, etc.	0	0	-	-	0	0	-xvi	-xvii		
66	Construction materials, etc.	0	0	0	0	0	0	0	0		
67	Iron and steel	0	0	0	-						
68	Non-ferrous metals	0	0	0	0					0xviii	0
69	Manufactures of metals n.e.s.	0	0	-	0	0	0	0	0		
71	Power generating machinery and equipment	0	0	0	0	0	0	0	0		
74	General industrial machinery and equipment	0	0	0	0	0	-xix	0	-xx		
75	Office and ADP machines	0	0	0	-	0	-xxi	0	-xxii	-xxiii	0
76	Telecom and sound recording equipment	0	0	0	-	+xxiv	-xxv	-xxvi	-xxvii	-xxviii	0
77	Electrical machinery and appliances	0	0	-	0	+/-xxix	0	-xxx	0	0	0
78	Road vehicles	0	0	-	0						
82	Furniture, mattresses, etc.	0	0	0	0	0	0	0	0		
83	Travel goods, handbags, etc.	0	0	0	0						
84	Articles of apparel	0	0	0	-	+xxxii	-xxxiii	-xxxiv	-xxxv	-xxxv	?
85	Footwear	0	0	-	-	0	-xxxvi	-xxxvii	-xxxviii		
87	Professional, scientific and controlling instruments	0	0	0	0	0	0	0	0		
88	Photographic apparatus	0	0	0	0	0	0	0	0		
89	Miscellaneous manufactures	0	0	0	0	0	0	0	0		

ⁱ Negative free trade effect in Austria and Sweden. Negative EU trade policy effect in Sweden, but positive in Austria.

ⁱⁱ Negative free trade effect in Austria and negative EU trade policy effect in Sweden.

ⁱⁱⁱ Free trade effect in Austria.

^{iv} In Hungary and Romania.

^v Negative EU trade policy effect in Sweden.

^{vi} Negative free trade effect, but positive EU trade policy effect in Sweden.

^{vii} In Romania.

^{viii} In Romania.

^{ix} Negative free trade effect in Finland, Austria and Sweden, and negative EU trade policy effect in Sweden.

^x Negative free trade effect in Finland and Sweden, but positive EU trade policy effect in Finland and Sweden.

^{xi} In Hungary.

^{xii} Negative free trade and EU trade policy effect in Sweden.

^{xiii} Negative free trade effect, but positive EU trade policy effect in Sweden.

^{xiv} Positive EU trade policy effect in Austria.

^{xv} In Poland.

^{xvi} In Sweden.

^{xvii} In Sweden.

^{xviii} In Poland.

^{xix} EU trade policy effect in Sweden.

^{xx} In Sweden.

^{xxi} EU trade policy effect in Finland, Austria and Sweden.

^{xxii} In Austria.

^{xxiii} In Poland.

^{xxiv} EU trade policy effect in Finland and Austria.

^{xxv} EU trade policy effect in Finland, Austria and Sweden.

^{xxvi} In Finland.

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- xxvii In Finland, Austria and Sweden.
 - xxviii In Poland.
 - xxix Positive EU trade policy effect in Finland. Negative EU trade policy effect in Finland and Sweden for 776.
 - xxx In Finland and Austria.
 - xxxi EU trade policy effect in Finland, Austria and Sweden.
 - xxxii EU trade policy effect in Finland, Austria and Sweden.
 - xxxiii In Finland, Austria and Sweden.
 - xxxiv In Finland, Austria and Sweden.
 - xxxv In Hungary.
 - xxxvi EU trade policy effect in Finland and Sweden.
 - xxxvii In Finland and Sweden.
 - xxxviii In Finland and Sweden.

On the EFTA 3 markets, the EU enlargement will lead to trade diversion for Malaysia in favour of EU products because of EU-EFTA 3 free trade (e.g. in Austria for fruit - 05, in Finland, Austria and Sweden for vegetable fats and oils - 42), or because of the adoption of the EU common trade policy (e.g. in Sweden for fruit - 05, feeding stuff for animals - 08, vegetable fats and oils - 42, general industrial machinery and equipment such as ball bearings etc. - 74, office machines - 75, telecom and sound recording apparatus - 76 ; in Austria and Finland for office machines - 75, and telecom and sound recording apparatus - 76). In some sectors, however, the adoption of the EU common external trade regime will lead to trade diversion in favour of Malaysian products, such as in Austria for chemicals of SITC 59, articles of apparel (84), in Finland for TV and radio receivers and telecom equipment of SITC 76, and articles of apparel of SITC 84, or in Sweden for articles of apparel of SITC 84. In some instances, however, these positive effects due to lower EU trade barriers are counteracted by a negative effect due to more restrictive EU non-tariff barriers (e.g. in Austria and Finland for telecom and sound recording apparatus - 76, in Finland and Sweden for articles of apparel of SITC 84). Also a few instances can be listed where for a specific product group a negative "free trade" effect felt by Malaysia, is counteracted by a positive "EU trade policy" effect, giving rise to a "+/-" sign in Table 3.3 (e.g. fruit - 05 : a negative "free trade" effect in Austria and Sweden, and a negative "EU trade policy" effect in Sweden, but a positive "EU trade policy" effect in Austria, or vegetable fats and oils - 42 : a negative "free trade" effect, with a positive "EU trade policy" effect in Finland and Sweden).

In the EFTA 3 markets, Malaysia will be increasingly confronted with trade diverting competition from EAC products in areas such as textile yarn, fabrics, etc. (65), general industrial machinery and equipment, e.g. ball bearings (74), telecom equipment (76), articles of apparel (84), and footwear (85) in Sweden, office machines (75), telecom equipment (76), electrical machinery and appliances, e.g. cathode tubes etc. (77), articles of apparel (84) in Austria, and in Finland for telecom and sound recording apparatus (76) , electrical apparatus etc. (77), articles of apparel (84), and footwear (85).

In the EACs markets, Malaysia will have to face likely trade diversion in favour of the EU, the EFTA 3 and the other EACs in product groups such as products of rubber (62), office and automatic data processing machines (ADP) (75), telecom and sound recording apparatus - 76 in Poland, and articles of apparel (84) in Hungary.

The following Table 3.4 shows the trade diversion effects on the exports of the Philippines. At first sight and based on the number of product groups affected¹⁴, it appears that on the EU market, the Philippines is less than Indonesia or Malaysia, hit by trade diversion due to the enlargement of the EU with EFTA 3. This is particularly apparent if we consider food products (SITC 0) at 2-digit level. Still, trade diversion effects are expected for Philippine exports of fish and seafood (03), vegetables and fruit (05) and feeding stuff for animals (08). Also the Philippine exports of tobacco (12), crude products of animal and vegetable origin n.e.s. (29) and processed animal and vegetable fats and oils etc. (43) to the EU will be adversely affected.

Table 3.4: Summary of trade diversion effects for the Philippines

SITC	Product category	Trade with the EU				Trade with EFTA 3				Trade with the EACs	
		Enlargm effect		EA effect		Enlargm. effect		EA effect		EA effect only	
		TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs
03	Fish, crustaceans, etc.	-	0	?	0	-	+ ^I	0	0	0	0
05	Vegetables and fruit	-	-	?	?	+/- ^{II}	0	?	?		
08	Feeding stuff for animals	-	-	?	?	0	0	0	0		
12	Tobacco	-	0	?	0	?	0	?	0		
24	Cork and wood	0	0	0	0	0	0	0	0		
25	Pulp and waste paper	0	0	0	0						
26	Textile fibres	0	0	0	-						
28	Ores, etc.	0	0	0	0						
29	Crude animal and vegetable materials, n.e.s.	-	0	?	0						
42	Fixed vegetable fats and oils	0	0	?	0	- ^{III}	+/- ^{IV}	0	0	?	?
43	Animal or vegetable fats and oils	-	0	?	0						
51	Organic chemicals	0	0	-	0						
63	Cork and wood manufactures	0	0	0	0	0	0	0	0		
64	Paper, paperboard etc.	0	0	0	0						
65	Textile yarn, fabrics, etc.	0	0	-	-						
66	Construction materials, etc.	0	0	0	0	0	0	0	0		
69	Manufactures of metals, n.e.s.	0	0	-	0						
71	Power generating machinery and equipment	0	0	0	0						
75	Office and ADP machines	0	0	0	-	0	0	0	0		
76	Telecom and sound recording equipment	0	0	0	-	+ ^V	- ^{VI}	0	0	- ^{VII}	0
77	Electrical machinery and appliances	0	0	-	0	- ^{VIII}	0	- ^{IX}	0		
81	Sanitary products, prefab, etc.	0	0	0	0						
82	Furniture, mattresses, etc.	0	0	0	0	0	0	0	0		
83	Travel goods, handbags, etc.	0	0	0	0						
84	Articles of apparel	0	0	0	-	+ ^X	- ^{XI}	- ^{XII}	-	- ^{XIII}	?
85	Footwear	0	0	-	-	+ ^{XIV}	- ^{XV}	- ^{XVI}	- ^{XVII}		
87	Professional, scientific and controlling instruments	0	0	0	0						
88	Photographic apparatus	0	0	0	0	0	0	0	0		
89	Miscellaneous manufactures	0	0	0	0	0	0	0	0		

¹⁴ As will be seen in section 4 this is not true if we look at the share of trade with the EU 12 of the Philippines and Malaysia, that is affected.

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- ⁱ Positive EU trade policy effect in Finland and Sweden.
 - ⁱⁱ Negative free trade effect in Finland, Austria and Sweden. Negative EU trade policy effect in Austria and Sweden.
 - ⁱⁱⁱ Negative free trade effect in Finland, Austria and Sweden.
 - ^{iv} Negative free trade effect, but positive EU trade policy effect in Finland and Sweden.
 - ^v Positive EU trade policy effect in Austria
 - ^{vi} Negative EU trade policy effect in Austria.
 - ^{vii} In Poland.
 - ^{viii} Negative EU trade policy effect in Finland and Sweden.
 - ^{ix} In Finland and Austria.
 - ^x Positive EU trade policy effect in Austria.
 - ^{xi} Negative EU trade policy effect in Austria.
 - ^{xii} In Austria.
 - ^{xiii} In Romania.
 - ^{xiv} Positive EU trade policy effect in Austria.
 - ^{xv} Negative EU trade policy effect in Austria and Sweden.
 - ^{xvi} In Austria and Sweden.
 - ^{xvii} In Austria and Sweden.

On the EU market, the Philippines will be increasingly confronted with trade diversion in favour of the EACs, particularly for product groups such as textile fibres (26), organic chemicals (51), textile yarn, etc. (65), metal products n.e.s. of SITC 69, office machines (75), telecom equipment (76), electrical machines etc.(77), apparel (84) and footwear (85).

On the EFTA 3 markets, “enlargement” effects will play against the Philippines for various product groups, but in all instances, except two, we come across in Table 3.4, higher (lower) EU tariff barriers are counteracted by lower (higher) EU non-tariff barriers. The exceptions are lower post-accession tariffs for fruit (05) in Finland, and more restrictive post-accession NTBs applying to electrical machinery and appliances, e.g. cathode tubes etc. (77) in Finland and Sweden, because of the adoption of the EU common external trade regime. Hence, we see that the EU enlargement with EFTA 3 will likely have a trade diversion effect on the EFTA 3 markets for prepared or canned fish (03), due to EU-EFTA 3 free trade, but a positive impact in Finland and Sweden as a result of the adoption of the EU trade policy. Philippine exports to EFTA 3 of fruit (05) are adversely affected because of the “free trade” effect in Finland, Austria and Sweden, but this will go together with a positive influence due to the “EU trade policy” effect in Finland. The Philippine exports of fixed vegetable fats and oils (42) will be adversely affected due to EU-EFTA 3 free trade, but this will be counteracted by a positive “EU trade policy” effect, because of less restrictive post-accession NTBs in Finland and Sweden. Also a positive trade effect will be felt in Austria for telecom and sound recording apparatus (76) , but this is counteracted by a negative effect of the EU common external trade policy for this product category. Also negative impact is expected for electrical machinery and appliances, such as e.g. cathode tubes etc. (77) in Finland and Sweden. Because of lower EU tariffs (the post-accession tariffs of the EFTA 3 countries) compared to the pre-accession tariffs in the EFTA 3 countries, positive enlargement effects in the EFTA 3 markets also extend to product groups such as apparel (84), and footwear (85) in Austria, but more restrictive NTBs are applied on apparel and footwear in Austria, and on footwear in Sweden. Impact of the European Agreements with Eastern Europe will be felt by the Philippines in the EFTA 3 markets for electrical machinery and appliances such as e.g. cathode tubes, etc (77) in Finland and Austria, for articles of apparel (84) in Austria and for footwear (85) in Austria and Sweden.

The trade diversion effects of the European Agreements with Eastern Europe that Philippine exports will likely experience on the EACs markets are restricted to telecom equipment etc. (76) in Poland, and articles of apparel (84) in Romania.

Looking at Table 3.5, we see that the EU enlargement and the European Agreements with Eastern Europe will also influence Singapore's exports to Europe. In the EU market, the accession of the EFTA 3 will only lead to some trade diversion away from Singapore in favour of EFTA 3 products such as fish and seafood (03), vegetables and fruit (05), various food products and preparations (09) and crude materials of animal or vegetable origin (29)¹⁵. The impact of the European Agreements of Singapore's exports to the EU seems to be more important, though, with trade diversion in favour of the EACs for product groups¹⁶ such as organic chemicals (51), chemical materials and products (59), textile yarn, etc. (65), manufactures of metals n.e.s. (69), office machines (75), telecom equipment (76), electrical machines (77), road vehicles (78), other transport equipment (79), articles of apparel (84) and footwear (85).

In the EFTA 3 markets, Singapore will be affected by trade diversion in favour of the EU products. This is due to the post-accession EU-EFTA 3 free trade in products such as fish and seafood (03) in Austria and Sweden, and miscellaneous edible products and preparations, n.e.s. (09) in Finland and Sweden. However, important impact will be felt from the adoption by the EFTA 3 countries of the EU common external trade policy. This will result in additional trade diversion due to higher tariff protection for: fish and seafood (03) in Austria and Sweden, miscellaneous edible products and preparations (09) in Finland and Sweden, telecom and sound recording apparatus (76) in Sweden, and electrical machinery and appliances such as e.g. cathode tubes etc. (77) in Finland and Sweden.

The same holds because of more restrictive NTBs for : fish (03) in Austria, general industrial machinery and equipment, ball bearings etc. (74) in Sweden, telecom and sound recording apparatus (76) in Finland, Austria and Sweden, and office machines (75) in Austria and Sweden.

For some product groups, however, lower post-accession tariffs in the EFTA 3 countries will benefit Singaporean exports, such as telecom and sound recording apparatus, e.g. radio receivers (76) in Austria, electrical machinery (77) in Finland, and some articles of apparel (84) in Austria. In some instances, lower post-accession tariffs, going together with more restrictive NTBs will lead to counteracting influences on Singaporean exports to EFTA 3 of telecom and sound recording apparatus (76) in Finland and Austria, and some articles of apparel (84) in Finland and Sweden.

In addition, in the EFTA 3 markets Singapore will also be confronted with the post-accession EU trade diverting preferences given to the EACs. This is the case for product groups such as manufactures of metals, n.e.s. (69) in Austria, power generating machinery and equipment (71) and general industrial machinery and equipment (74) in Sweden, office machines (75) in Austria, telecom and sound re-

¹⁵ We also find for Singapore trade diversion in the SITC 07 product group, i.e. coffee, tea, cocoa, spices, etc., which can be neglected.

¹⁶ It should be kept in mind that, here as before, for agricultural products no assessment can be made about trade diversion in the EU market due to the European Agreements with Eastern Europe.

cording apparatus (76) in Finland, Austria and Sweden, electrical machinery and appliances, such as e.g. cathode tubes etc. (77) in Finland and Austria, some articles of apparel (84) in Finland, Austria and Sweden, and footwear (85) in Sweden.

Table 3.5: Summary of trade diversion effects for Singapore

SITC	Product category	Trade with the EU				Trade with EFTA 3				Trade with the EACs	
		Enlargm. effect		EA effect		Enlargm. effect		EA effect		EA effect only	
		TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs
03	Fish, crustaceans, etc.	-	0	?	0	ⁱ	ⁱⁱ	?	?		
05	Vegetables and fruit	-	-	?	?						
07	Coffee, tea, cocoa, spices, etc.	-	-	?	?						
09	Miscellaneous edible products	-	-	?	?	ⁱⁱⁱ	^{iv}	0	0		
23	Crude rubber	0	0	0	0					^v	? ^{vi}
24	Cork and wood	0	0	0	0						
28	Ores, etc.	0	0	0	0					^{vii}	? ^{viii}
29	Crude animal and vegetable materials, n.e.s.	-	0	?	0						
32	Coal									^{ix}	? ^x
42	Fixed vegetable oils and fats	0	0	?	0					? ^{xi}	? ^{xii}
51	Organic chemicals	0	0	-	0	0	0	0	0		
53	Dyeing and tanning materials etc.	0	0	0	0	0	0	0	0		
55	Essential oils, soaps, etc.	0	0	0	0						
57	Plastics in primary forms	0	0	-	0	0	0	0	0		
58	Plastics in non-primary forms	0	0	0	0						
59	Chemical products, n.e.s.	0	0	-	0						
61	Leather and leather products	0	0	0	0						
62	Rubber manufactures, n.e.s.	0	0	0	0	0	0	0	0		
63	Cork and wood manufactures	0	0	0	0						
64	Paper, paperboard, etc.	0	0	0	0					^{xiii}	0 ^{xiv}
65	Textile yarn, fabrics, etc.	0	0	-	-					^{xv}	? ^{xvi}
66	Construction materials, etc.	0	0	0	0						
68	Non-ferrous metals	0	0	0	0						
69	Manufactures of metals, n.e.s.	0	0	-	0	0	0	^{xvii}	0		
71	Power generating machinery and equipment	0	0	0	0	0	^{xviii}	0	^{xix}		
72	Machinery specialised for particular industries	0	0	0	0						
73	Metal working machinery	0	0	0	0	0	0	0	0		
74	General industrial machinery and equipment	0	0	0	0	0	^{xx}	0	^{xxi}		
75	Office and ADP machines	0	0	0	-	0	^{xxii}	0	^{xxiii}	^{xxiv}	? ^{xxv}
76	Telecom and sound recording equipment	0	0	0	-	+/- ^{xxvi}	^{xxvii}	^{xxviii}	^{xxix}	^{xxx}	? ^{xxxi}
77	Electrical machinery and appliances	0	0	-	-	+/- ^{xxxii}	0	^{xxxiii}	0	^{xxxiv}	? ^{xxxv}
78	Road vehicles	0	0	-	0						
79	Other transport equipment	0	0	-	0	0	0	0	0	^{xxxvi}	? ^{xxxvii}
82	Furniture, mattresses, etc.	0	0	0	0	0	0	0	0		
84	Articles of apparel	0	0	0	-	+ ^{xxxviii}	^{xxxix}	^{xl}	^{xli}	^{xlii}	
85	Footwear	0	0	-	-	0	^{xliii}	^{xliiii}	^{xliiii}	^{xliiii}	0 ^{xliiii}
87	Professional, scientific and controlling instruments	0	0	0	0	0	0	0	0		
88	Photographic apparatus	0	0	0	0	0	0	0	0	^{xliiii}	0 ^{xliiii}
89	Miscellaneous manufactures	0	0	0	0	0	0	0	0	ⁱ	? ⁱⁱ

ⁱ Negative free trade effect in Austria and negative EU trade policy effect in Austria and Sweden.

ⁱⁱ Negative EU trade policy effect in Austria for 034, but positive in Sweden ; and negative EU trade policy effect in Austria and Sweden for 036.

ⁱⁱⁱ Negative free trade effect and EU trade policy effect in Finland

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- iv Negative free trade effect in Finland
 - v Negative effect in Romania
 - vi In Romania
 - vii In Romania
 - viii In Romania
 - ix In Romania
 - x In Romania
 - xi In Poland
 - xii In Poland
 - xiii In Poland
 - xiv In Poland
 - xv In Hungary
 - xvi In Hungary
 - xvii In Austria
 - xviii EU trade policy effect in Sweden
 - xix In Sweden
 - xx EU trade policy effect in Sweden
 - xxi In Sweden
 - xxii Negative EU trade policy effect in Austria and Sweden
 - xxiii In Austria
 - xxiv In Hungary, Poland and Romania
 - xxv In Hungary and Romania
 - xxvi Positive EU trade policy effect in Finland and Austria, but a negative EU trade policy effect in Sweden
 - xxvii Negative EU trade policy effect in Finland, Austria and Sweden
 - xxviii In Finland
 - xxix In Finland, Austria and Sweden
 - xxx In Hungary, Poland and Romania
 - xxxi In Hungary and Romania
 - xxxii Negative EU trade policy effect for 776 in Finland and Sweden, but positive EU trade policy effect for 771 and 772 in Finland
 - xxxiii In Finland and Austria
 - xxxiv In Hungary and Poland
 - xxxv In Hungary
 - xxxvi In Romania
 - xxxvii In Romania
 - xxxviii Positive EU trade policy effect in Finland, Austria and Sweden
 - xxxix Negative EU trade policy effect in Finland and Sweden
 - xl In Sweden
 - xli In Finland, Austria and Sweden
 - xlII In Hungary
 - xlIII Negative EU trade policy effect in Sweden
 - xliv In Sweden
 - xlV In Sweden
 - xlvi In Poland
 - xlVII In Poland
 - xlVIII In Poland
 - xlIX In Poland
 - I In Poland
 - II In Hungary

According to Table 3.5, Singapore will feel adverse trade diversion effects in the EACs in favour of the EU, EFTA 3 and EAC products, in its exports of natural rubber (23), ores and concentrates of base metals (28), coal (32), office and ADP machines (75), telecom and sound recording apparatus (76), railway vehicles (791) in Romania ; paper and paperboard (64), office and ADP machines (75), telecom and sound recording apparatus (76), electrical machinery and apparatus, etc (77), footwear (85), photographic equipment (88), and miscellaneous manufactured articles n.e.s. (e.g. printed matter, articles of plastics, office supplies and musical instruments) in Poland ; and textile yarn etc (65), office machines etc. (75), telecom equipment (76), electrical machines (77) and articles of apparel (84) in Hungary.

Table 3.6 depicts the summary results on trade diversion for Thailand. As could be expected for a NAIC ("Newly Agro-industrialised Country") as Thailand wants to be called, Thailand's exports of agricultural products to the EU and the EFTA 3 countries will likely be hit by trade diversion effects, particularly due to the enlargement of the EU. In the EU market, this is the case for almost all 2-digit SITC product categories of SITC 0 and 29 (food and live animals and crude animal and vegetable materials, n.e.s.). Similar results might well hold for the effects on agricultural exports to the EU, EFTA 3 and the EACs, as a result of the European Agreements, but this cannot be vindicated due to lacking detailed information on the liberalisation measures related to agriculture trade under the Agreements.

Table 3.6: Summary of trade diversion effects for Thailand

SITC	Product category	Trade with the EU				Trade with EFTA 3				Trade with the EACs	
		Enlargm. effect		EA effect		Enlargm. effect		EA effect		EA effect only	
		TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs
01	Meat and meat preparations	-	-	?	?	- ⁱ	+/- ⁱⁱ	? ⁱⁱⁱ	? ^{iv}	? ^v	? ^{vi}
03	Fish, crustaceans, etc.	-	0	?	0	- ^{vii}	- ^{viii}	0	0	? ^{ix}	? ^x
04	Cereals and cereal preparations	-	-	?	?	- ^{vii}	- ^{viii}	0	0	? ^{ix}	? ^x
05	Vegetables and fruit	-	-	?	?	+/- ^{xi}	+/- ^{xii}	?	?	? ^{xiii}	0
06	Sugars, sugar preparations, etc.	-	-	?	?	- ^{xiv}	- ^{xv}	0	0	? ^{xvi}	? ^{xvii}
07	Coffee, tea, cocoa, spices, etc.	-	-	?	?	- ^{xix}	+/- ^{xx}	? ^{xxi}	? ^{xxii}	? ^{xxiii}	0
08	Feeding stuff for animals	-	-	?	?	- ^{xxv}	+/- ^{xxvi}	0	0		
09	Miscellaneous edible products	-	-	?	?	- ^{xxvii}	0	- ^{xxviii}	0	0	0
12	Tobacco	0	0	?	0	- ^{xxvii}	0	- ^{xxviii}	0	0	0
23	Crude rubber	0	0	0	0					0	0
24	Cork and wood	0	0	0	0	0	0	0	0		
26	Textile fibres, etc.	0	0	0	-						
28	Ores, etc.	0	0	0	0						
29	Crude animal and vegetable materials, n.e.s.	-	0	?	0	+/- ^{xxxix}	0	? ^{xxx}	0		
51	Organic chemicals	0	0	-	0						
54	Medical and pharmaceutical products					0	0	0	0		
58	Plastics in non-primary form	0	0	0	0	0	- ^{xxxi}	0	- ^{xxxii}		
59	Chemical products, n.e.s.	0	0	-	0						
61	Leather and leather products	0	0	0	0	0	0	0	0		
62	Rubber manufactures, n.e.s.	0	0	0	0	0	0	0	0		
63	Cork and wood manufactures	0	0	0	0	0	0	0	0		
64	Paper, paperboard, etc.	0	0	0	0	0	0	0	0		
65	Textile yarn, fabrics, etc.	0	0	-	-	+ ^{xxxiii}	- ^{xxxiv}	- ^{xxxv}	- ^{xxxvi}	- ^{xxxvii}	0
66	Construction materials, etc.	0	0	0	0	+ ^{xxxviii}	0	0	0		
67	Iron and steel	0	0	0	-						
68	Non-ferrous metals	0	0	0	0						
69	Manufactures of metals, n.e.s.	0	0	-	0	0	0	0	0		
71	Power generating machinery and equipment	0	0	0	0	0	0	0	0		
73	Metal working machinery	0	0	0	0						
74	General industrial machinery and equipment	0	0	0	0	0	0	0	0		
75	Office and ADP machines	0	0	0	-	0	- ^{xxxix}	0	- ^{xl}	- ^{xli}	? ^{xlii}
76	Telecom and sound recording equipment	0	0	0	-	+ ^{xliii}	- ^{xliiv}			- ^{xliiv}	0
77	Electrical machinery and appliances	0	0	-	0	+/- ^{xlii}	0	- ^{xlii}	0	0	0
78	Road vehicles	0	0	-	0	+ ^{xliiii}	- ^{xlix}	- ⁱ	- ⁱⁱ		
81	Sanitary products, prefab, etc.	0	0	0	0	0	0	0	0		
82	Furniture, mattresses, etc.	0	0	0	0	0	0	0	0	- ^{lii}	0
83	Travel goods, handbags, etc.	0	0	0	0	0	+ ^{liii}	0	0	- ^{lii}	0
84	Articles of apparel	0	0	0	-	+ ^{lii}	- ^{lii}	- ^{lii}	- ^{lii}		

SITC	Product category	Trade with the EU				Trade with EFTA 3				Trade with the EACs	
		Enlargm. effect		EA effect		Enlargm. effect		EA effect		EA effect only	
		TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs
85	Footwear	0	0	-	-	^{lix} +	^{lx} -	^{lxi} -	^{lxii} -	^{lxiii} -	^{lxiv} ?
87	Professional, scientific and controlling instruments	0	0	0	0						
88	Photographic apparatus	0	0	0	0	0	0	0	0	^{lxv} -	0
89	Miscellaneous manufactures	0	0	0	0	0	0	0	0	^{lxvi} -	^{lxvii} ?

ⁱ Negative free trade effect and negative EU trade policy effect in Austria and Finland.

ⁱⁱ Negative free trade effect and positive EU trade policy effect in Finland and Sweden.

ⁱⁱⁱ In Sweden

^{iv} In Sweden

^v In Hungary and Poland

^{vi} In Hungary.

^{vii} Negative EU trade policy effect in Austria and Sweden.

^{viii} Negative free trade effect and negative EU trade policy effect in Austria, and negative EU trade policy effect in Sweden.

^{ix} In Romania

^x In Romania

^{xi} Negative free trade effect in Finland, Austria and Sweden. Positive EU trade policy effect in Finland and Austria. Negative EU trade policy effect in Sweden

^{xii} Negative free trade effect in Finland and Austria. Positive EU trade policy effect in Austria for 054 and 056, and negative for 058. Negative free trade effect and negative EU trade policy effect in Sweden

^{xiii} In Poland

^{xiv} Negative EU trade policy effect in Sweden

^{xv} Negative free trade effect in Sweden

^{xvi} In Romania

^{xvii} In Romania

^{xviii} In Poland

^{xix} Negative EU trade policy effect in Sweden and Finland

^{xx} Negative free trade effect, but positive EU trade policy effect in Finland and Sweden.

^{xxi} In Sweden

^{xxii} In Sweden

^{xxiii} In Romania

^{xxiv} In Romania.

^{xxv} Negative free trade effect and negative EU trade policy effect in Sweden.

^{xxvi} Negative free trade effect and positive EU trade policy effect in Sweden.

^{xxvii} Negative EU trade policy effect in Sweden

^{xxviii} In Austria

^{xxix} Negative free trade effect and positive EU trade policy effect in Finland, but positive EU trade policy effect in Sweden.

^{xxx} In Finland and Sweden

^{xxxi} Negative EU trade policy effect in Sweden.

^{xxxii} In Sweden

^{xxxiii} Positive EU trade policy effect in Finland.

^{xxxiv} Negative EU trade policy effect for in Finland and Austria.

^{xxxv} In Austria and Sweden

^{xxxvi} In Finland, Austria and Sweden

^{xxxvii} In Poland

^{xxxviii} Positive EU trade policy effect in Finland

^{xxxix} Negative EU trade policy effect in Finland, Austria and Sweden

^{xl} In Austria

^{xli} In Hungary and Poland

^{xlii} In Hungary.

^{xliii} Positive EU trade policy effect in Austria

^{xliv} Negative EU trade policy effect in Austria and Sweden

^{xlv} In Poland

^{xlvi} Positive EU trade policy effect in Finland. Negative EU trade policy effect in Finland and Sweden for 776.

^{xlvii} In Finland and Austria

^{xlviii} Positive EU trade policy effect in Austria.

^{xliv} Negative EU trade policy effect in Austria.

^l In Austria

^{li} In Austria

^{lii} In Poland

^{liii} Positive EU trade policy effect in Austria

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- ^{liv} In Poland
 - ^{lv} Positive EU trade policy effect in Finland, Austria and Sweden.
 - ^{lvi} Negative EU trade policy effect in Finland, Austria and Sweden.
 - ^{lvii} In Finland, Austria and Sweden
 - ^{lviii} In Finland, Austria and Sweden
 - ^{lix} Positive EU trade policy effect in Austria
 - ^{lx} Negative EU trade policy effect in Finland, Austria and Sweden.
 - ^{lxi} In Finland, Austria and Sweden.
 - ^{lxii} In Finland, Austria and Sweden
 - ^{lxiii} In Hungary and Poland.
 - ^{lxiv} In Hungary.
 - ^{lxv} In Poland
 - ^{lxvi} In Poland
 - ^{lxvii} In Hungary.

In the EU markets, Thai exports of various other product groups will suffer, however, from likely trade diversion in favour of the EACs, such as organic chemicals (51), chemical materials and products n.e.s. (59), textile yarn, fabrics, etc. (65), iron and steel (67), manufactures of metals n.e.s. (69), office and ADP machines (75), telecom equipment (76), electrical machinery etc.(77), road vehicles (78), articles of apparel (84) and footwear (85).

In the EFTA 3 markets, the EU enlargement effects are mostly negative for Thai exports such as sugars etc. (06), tobacco (12), plastics in non-primary form (58), and office and ADP machines (75). Hence, negative EU trade policy effects are detected for office and ADP machines (75) in the three EFTA 3 countries¹⁷. In Sweden a negative free trade effect together with a negative EU trade policy effect seems to hold for sugars and sugar preparations, such as confectionary (06). In addition negative trade policy effects are likely in Sweden for tobacco (12) and plastics in non-primary forms (58). However, also positive EU enlargement effects are shown in Table 3.6 (for construction materials - 66 - in Finland and for travel goods, handbags, trunks, suit-cases, etc. - 83 - in Austria, both due to a positive "EU trade policy" effect); In many other instances, however, positive enlargement effects for one group within a 2-digit SITC product category are counteracted by negative enlargement effects in another, or else, a positive effect on tariffs is counteracted by a negative one on NTBs or vice versa. We find, e.g., negative "free trade" effects and negative "EU trade policy" effects for fish and crustaceas, etc. (03) in Austria and in Finland, with a negative "EU trade policy" effect for the same product categories in Sweden. These negative effects are, however, counteracted by positive "EU trade policy" effects for particular product groups of SITC 03 in Finland and Sweden. Similar positive effects can be traced for vegetables and fruit (05), textile yarn, made-up articles of textile materials etc. (65), telecom and sound recording apparatus (76), road vehicles (78), articles of apparel (84), and footwear (85) in Austria, vegetables and fruit (05), textile yarn, made-up articles of textile materials, etc. (65), articles of apparel (84) in Finland, and articles of SITC 84 in Sweden, that are counteracted by negative effects for fish and crustaceans, etc (03), vegetables and fruit (05), telecom and sound recording apparatus (76), road vehicles (78), articles of apparel (84) and footwear (85) in Austria, fish, crustaceans, etc. (03), vegetables and fruit (05), textile yarns, fabrics, made-up articles etc. (65), articles of apparel (84) and footwear (85) in Finland, fish (03), vegetables and fruit (05), telecom and sound recording apparatus (76), articles of apparel (84) and footwear (85) in Sweden.

¹⁷ A negative effect for Thailand's exports of rice (042) is evidently unlikely, although found in Table 3.6.

Trade diversion in favour of EAC products is expected for product groups such as textile yarn, fabrics, made-up articles of textile materials etc. (65), office machines (75), electrical machinery and appliances, such as e.g. cathode tubes etc. (77), road vehicles (78) in Austria, made-up articles of textile materials etc. (65) and electrical machinery and appliances (77) in Finland, and plastics in non-primary form (58), textile yarn, fabrics and made-up articles of textile materials (65) in Sweden, as well as for various product groups of SITC 84 (articles of apparel) and footwear (85) in all three EFTA 3 countries.

Finally, Thailand's exports are likely to be affected in the EACs markets due to the European Agreements with the EU, which are also binding for the EFTA 3 since the accession of these countries to the EU. Indications for such trade diversion can be found for textile yarn, fabrics, etc. (65), office and ADP machines (75), furniture, etc. (82), travel goods, trunks, suit-cases, etc. (83), footwear (85), photographic apparatus etc. (88), miscellaneous manufactured articles of plastics, toys, etc. (89) in Poland, and office and ADP machines (75) and footwear (85) in Hungary

4. A quantitative assessment of the trade diversion effects

We have not endeavoured in this paper to provide an estimate of the trade of the ASEAN countries diverted by the enlargement of the EU with the EFTA 3 countries and the association agreements with Eastern European countries. The following Table 4.1, however, depicts the export trade from the ASEAN countries that is affected by trade diversion as a proportion of total trade to the EU 12, the EFTA 3 and the EACs, respectively. Evidently, the figures of Table 4 don't tell anything about the amount or share of trade that is actually diverted.

Table 4.1: Share of trade per ASEAN country affected by the EU enlargement and association agreements

Country	Trade with the EU				Trade with EFTA 3				Trade with the EACs	
	Enlargm. effect		EA effect		Enlargm. effect		EA effect		EA effect only	
	TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs	TBs	NTBs
Brunei	-0.0	-0.0	-0.2	-18.2
Indonesia	-12.3	-9.7	-21.4	-46.2	-13.3	-62.6	-54.4	-53.5	-39.5	-0.0
					+51.9	+0.9	+0.0	+0.0	+0.0	+0.0
Malaysia	-4.9	-3.0	-27.3	-32.9	-9.4	-41.5	-60.1	-42.4	-46.4	-0.0
					+29.3	+0.0	+0.0	+0.0	+0.0	+0.0
Philippines	-10.3	-5.0	-21.9	-42.9	-39.5	-15.5	-40.0	-11.7	-38.2	-0.0
					+15.5	+4.3	+0.0	+0.0	+0.0	+0.0
Singapore	-1.8	-0.6	-19.5	-73.9	-2.0	-67.3	-41.7	-65.4	-87.6	-0.0
					+2.3	+0.0	+0.0	+0.0	+0.0	+0.0
Thailand	-24.4	-18.1	-17.5	-34.4	-15.9	-44.6	-40.9	-38.0	-21.5	-0.0
					+38.9	+0.8	+0.0	+0.0	+0.0	+0.0

From Table 4.1 it appears that the exports from the ASEAN countries to the EU 12 are only to a limited extent affected by the enlargement of the EU with the EFTA 3. The trade diversion effects of the EU enlargement will be felt most by Thailand's exports to the EU, 24.4 % of which will be negatively affected by reduced tariff barriers, and 18.1 % by reduced non-tariff barriers in the EU towards the EFTA 3. Next in the list of most affected ASEAN trade come the exports of Indonesia and the Philippines.

Apparently, the exports from ASEAN to the EFTA 3 are more influenced by the accession of the EFTA 3 countries to the EU, than the ASEAN exports to the EU 12. Particularly striking are the shares of affected Philippine exports on account of reduced tariff barriers in the EFTA 3 towards the EU 12 (39.5 % of the Philippine exports to the EFTA 3). The lowering of NTBs on EU-EFTA 3 trade and the trade diversion thus induced, seems to be even more impressive and is affecting important export trade volumes to the EFTA 3 from Singapore (67.3 % of Singapore's exports to the EFTA 3), Indonesia (62.6 % of Indonesia's exports to the EFTA 3), Thailand (44.6 %) and Malaysia (41.5 %).

Table 4 also shows cases of export trade from the ASEAN countries with the EFTA 3 that is positively affected. Almost 52 % of Indonesia's trade and 39 % of Thailand's trade, e.g., with the EFTA 3 belongs to the latter category, due to lower tariff barriers after the adoption of the EU common external trade regime. Undoubtedly, these positive impacts to some extent will counteract the negative effects for ASEAN of the accession of the EFTA 3 to the EU, but they are also leading us to expect important changes in the composition of ASEAN trade to the EFTA 3 countries, which will invoke important adjustment costs for ASEAN producers and exporters.

The ASEAN countries should be most concerned of all about the trade affected by increased competition from Eastern Europe, both on the EU 12 and on the EFTA 3 markets. This is illustrated by the high shares of their trade to the EU 12 and the EFTA 3 that is affected by trade diversion due to the association agreements with the EACs. As is shown in Table 4 shares of negatively affected trade of 40 or 50 % are not exceptional, especially with the EFTA 3. Lower tariff and non-tariff barriers in the EFTA 3 countries towards imports from the EACs are affecting mostly Singapore's and Malaysia's exports to the EFTA 3 (in Singapore 41.7 % and 65.4 %, and in Malaysia 60.1 % and 42.4 %, because of reduced tariffs and NTBs respectively), but the exports from the other ASEAN countries are also badly hit. Contrary to the enlargement effects on ASEAN trade with the EFTA 3, that are positive and counteract the negative trade diversion, ASEAN-EFTA 3 trade shows no such counteracting positive trade diversion due to the EFTA 3 adoption of the EU trade policy regime vis-a-vis the Eastern European countries.

The shares of trade of the ASEAN countries with the EACs that are negatively affected by the European Association Agreements are considerable. In absolute value terms, however, the trade flows involved are rather marginal.

5. Conclusions

Using the methodology of Kreinin and Plummer, we have analysed the available data on trade between the ASEAN countries, and the European Union, the three former EFTA countries that acceded to the EU, and three Eastern European countries with which the EU concluded special agreements. The methodology enables an assessment on trade diversion that the ASEAN countries will likely suffer from these new developments in European economic integration and cooperation.

Although in the recent past, the fear of "Fortress Europe" has been largely exaggerated, the ASEAN countries have all reasons to believe that the enlargement of the EU with the EFTA 3 and the European Association Countries (EACs) will bring about trade diversion away from ASEAN products. This is

particularly the case for many agricultural and fishery exports, such as fish, seafood, fruit, juices, etc. In addition, however, ASEAN exports of textile products and articles of apparel, will also suffer. Here, the EACs will become formidable competitors in the EU and EFTA 3 markets. The gradual dismantling of the Multifibre Arrangement by the EU in the post-Uruguay Round world will not be of much help to the ASEAN exporters, as the liberalisation of Europe's textiles trade with Eastern Europe will proceed at a substantially quicker pace.

Also the ASEAN exports of technology intensive products to Europe are likely to suffer : in all ASEAN countries, the exports to Europe of telecom and sound equipment (TV and radio receivers, video recorders, etc.), office and automatic data processing machines, other electronics and parts, electrical machinery and appliances, ball bearings, etc. will experience trade diversion due to the enlargement of the EU and the European Agreements with Eastern European countries. We have shown that for many of these product categories, free intra-European trade will virtually increase the existing tariff barriers, even if these are brought down towards the rest of the world. There are cases, where the adoption by the EFTA 3 countries of the EU common external trade regime implies less restrictive NTBs, but the frequency of appearance of such counteracting effects is much too low to sufficiently compensate overall for the many negatively affected product categories of ASEAN exports.

Although no quantitative assessment of the trade diversion effects is made here, it appears that Singapore and Thailand are probably most hit, with the largest number of export product categories affected. Malaysia and Indonesia are in a middle group. Of the six ASEAN countries, the exports to Europe of the Philippines and Brunei seem to be least affected, but the number of product categories for which trade diversion can be expected is still considerable. Looking at the shares of export trade from the ASEAN countries to the EU 12, the EFTA 3 and the EACs that are affected by trade diversion, it clearly appears that the European Agreement effects are largely dominating the European enlargement effects. In addition ASEAN trade with the EFTA 12 countries seems to be relatively more affected than ASEAN trade with the EU 12.

Whether these negative effects will actually materialise, however, to a large extent depends on the business strategies of the exporters of the ASEAN countries. Up to now, previous threats on the European market have been warded off successfully. There is no reason to believe that the present apparent threats for the ASEAN market positions in the EU, the EFTA 3 and the EACs are unescapable. It is clear, however, that nothing will be the same as before anymore. The impact of the enlargement of the EU and the European Agreements with Eastern Europe on ASEAN trade with Europe, particularly on the EFTA 3 markets, is likely to become considerable, making the ASEAN countries also less attractive as manufacturing basis for exports to Europe.

One should, however, not forget the trade creation effects which a larger and more unified European market will entail. Given the existing intense trade relations between the three groups of European countries, compared to these with ASEAN, it seems doubtful, though, whether these will be sufficiently large for the ASEAN countries to balance the trade diversion effects of the latests developments in European integration. The question how the EU can compensate the ASEAN countries for the welfare

losses that these will suffer, should be on the agenda of future EU-ASEAN dialogues, and if necessary, of the WTO.

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