Journal of Economic Cooperation **22**, 3 (2001) 27-56

IMPLICATIONS OF THE ENLARGEMENT OF THE EUROPEAN UNION FOR THE OIC MEMBER COUNTRIES

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The enlargement of the European Union (EU) in addition to the completion of the single market and the establishment of the economic and monetary union will have an important impact on the global economy, and in particular the developing countries, including the OIC countries. With the completion of the enlargement process during the first decade of the new millennium, it will become an entity much more important than ever. This impact will be felt directly or indirectly in many areas, including the international trade in goods and services, foreign direct investments, international job division, international migration, competition policy and increasing economic and political strength of the EU at the world scale.

The present study examines the implications of the enlargement of the European Union for the OIC member countries. It first evaluates the developments within the framework of its horizontal integration, i.e., its enlargement process. Then, it examines the recent developments that occurred after the introduction of the single currency, the Euro, and its effects on the economies of the OIC members. Subsequently, it discusses the implications of the EU's enlargement process for the OIC countries. Finally, based on all these discussions, it provides some concluding remarks.

One of the main conclusions of the paper is that regional integration increases the efficiency and competitiveness of the companies and the industries in the region. Furthermore, it prepares and strengthens these firms and industries for a tougher competition at the international level. The EU experience provides enough evidence for these assertions. Therefore, the OIC countries should closely follow the experience of the EU and create the necessary and sufficient environment for their economies, industries and companies in order to increase, jointly and individually, their share in the global output and trade.

1. INTRODUCTION

In the 1990s, we have witnessed two important phenomena developing side by side on the world scale. Multilateral trade liberalisation, on the one hand, and the formation of huge regional trade blocs amongst the

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developed countries, like the EU and the North American Free Trade Agreement (NAFTA), on the other.

Multilateral trade liberalisation efforts on the global scale have continued on a regular basis within the framework of the World Trade Organisation (WTO). But these efforts, particularly the efforts of the EU countries to launch a new round of trade negotiations to enlarge the scope of the WTO agreements and to place new areas like trade and labour standards, investment issues, competition policy, government procurement, etc., on the WTO agenda increased the worries of the developing countries about the future of the world trade system. Especially, before and during the Third Ministerial Conference that met in Seattle in December 1999, the developing countries, including the OIC countries, openly stated their dissatisfaction about the present way of functioning of the world trading system. Furthermore, they wanted the international community to intensify its efforts to solve the problems of the developing countries. Gains from multilateral trade liberalisation in developing countries were negligible and in the case of some of those countries, in particular the least developed countries, their economies were marginalised.

On the other hand, the vertical integration of the EU through the successful establishment of the economic and monetary union attracted the attention of the other developed and developing countries. Now, in addition to this success story, the intention of the EU to enlarge its boundaries to include central and East European countries and its efforts to set up a Euro-Mediterranean Free Trade Area in the next decade will be a source of interest for the other countries.

Under these circumstances, the US changed its negative attitude towards regionalisation and launched negotiations enlarging NAFTA to establish the Free Trade Area of the Americas (FTAA) in the Western Hemisphere. Furthermore, the US also turned to the Asia-Pacific region and activated efforts to increase regional trade and economic co-operation issues within the framework of Asia-Pacific Economic Co-operation (APEC).

In fact, as an example of regional economic groupings, the European Union is a very successful one. The experience of the European countries to achieve successfully such a high degree of economic and monetary union is full of lessons to be learned.

Soon after the end of the Second World War, the idea of the European co-operation and integration commenced to develop amongst the hostile countries of Western Europe. The first step in this regard was the establishment of the European Coal and Steel Community (ECSC) in Paris in April 1951 (Treaty of Paris). This initiative flourished and turned into the creation of the European Economic Community in Rome in March 1957 (Treaty of Rome). The six founding members were Belgium, France, Germany, Italy, Luxembourg and the Netherlands.

Since its establishment, the European Union has grown greatly in terms of its membership, its economic and political influence, and its organisational infrastructure. Starting with only six Member States, its membership has now reached fifteen following four successive enlargements in 1973 (Denmark, Ireland, and the United Kingdom), in 1981 (Greece), in 1986 (Portugal and Spain) and in 1995 (Austria, Finland and Sweden). Furthermore, more countries are waiting on the doorstep of the Union. On the other hand, in order to increase the level of co-operation, the founding treaties have been revised three times: in 1987 (the Single Act), in 1991 (the Treaty on European Union) and in 1997 (the Treaty of Amsterdam).

At the Maastricht Summit (9 to 11 December 1991), the Heads of State or Government of the 12 Member States agreed on the Treaty on the European Union (Treaty of Maastricht). This Treaty (signed on 7 February 1992 and entered into force on 1 November 1993) intended to facilitate the development of the European Community into an Economic and Monetary Union (EMU) by 1999 at the latest, and a political union including a common foreign and security policy at a later stage.

A further development was made in the form of the Treaty of Amsterdam that was signed on 2 October 1997 and entered into force on 1 May 1999. This Treaty opened the way for a multi-speed Europe. In other words, this Treaty brought flexibility into the process of European unification. The Member States, which intend to establish closer co-operation amongst them, may make use of the institutions, procedures and mechanisms determined in the agreements. For this reason, some EU members (Britain, Denmark and Sweden) chose not to join the process of launching of the single currency, the Euro.

The EU is presently an advanced form of multi-sectoral integration scheme extending from economy to citizens' rights and foreign policy.

This paper will, first, evaluate the developments within the framework of its horizontal integration, i.e., its enlargement process. Then, it will examine the recent developments that occurred with the introduction of the single currency, the Euro. The subsequent section will discuss the implications of the enlargement of the Union for the OIC countries. And lastly, based on all these discussions, concluding remarks will be given at the end.

2. ENLARGEMENT OF THE UNION

The success of the Union in providing strong growth and development to its members attracted the attention of the other European Countries. Soon after the fall of the Berlin Wall in 1989, the Central and East European Countries (CEEC) established diplomatic ties with the European Community. They started to sign co-operation agreements with the Union and openly stated their intention to join the EU.

Table 1: The EU Agreements

Country	**Europe Agreement signed**	**Europe Agreement came into force**
Hungary	December 1991	February 1994
Poland	December 1991	February 1994
Bulgaria	March 1993	February 1995
Czech Rep.	October 1993	February 1995
Romania	February 1993	February 1995
Slovak Rep.	October 1993	February 1995
Estonia	June 1995	February 1998
Latvia	June 1995	February 1998
Lithuania	June 1995	February 1998
Slovenia	June 1996	February 1998
	Association Agreement signed	**Association Agreement came into force**
Turkey	September 1963	December 1964
Malta	December 1970	April 1971
Cyprus	December 1972	June 1973

Source: European Commission, *European Union Enlargement*, p.8.

These agreements, namely the *Europe Agreements*, cover, inter alia, trade issues and co-operation areas such as transport, industry, environment, etc., and aim to establish a free trade area between the parties. Hungary and Poland were the first countries to sign such agreements with the Community in December 1991 (Table 1). Bulgaria, the Czech Republic, Romania, the Slovak Republic, Estonia, Latvia, Lithuania and lastly Slovenia followed them. Furthermore, another set of agreements, namely the *Association Agreements*, covering similar areas, has been signed with Turkey, Malta and Cyprus. The Europe Agreements recognised the rights of the CEEC countries to become members of the European Union enabling them to apply later for EU membership (Table 2).

Meanwhile, after successfully establishing the single market in 1993, the EU was ready to consider the issue of enlargement towards central and East Europe. On 29-30 March 1996 in Torino, Italy, the EU's Intergovernmental Conference agreed on the preparation of an agenda for the enlargement.

Table 2: Dates of Application for EU Membership

Turkey	April 14, 1987
Cyprus*	July 3, 1990
Malta	July 16, 1990
Hungary*	March 31, 1994
Poland*	April 5, 1994
Romania	June 22, 1995
Slovak Republic	June 27, 1995
Latvia	October 13, 1995
Estonia*	November 24, 1995
Lithuania	December 8, 1995
Bulgaria	December 14, 1995
Czech Republic*	January 17, 1996
Slovenia*	June 10, 1996

Source: European Commission, *European Union Enlargement*, p.9.
Note: * The accession negotiations were started on 31 March 1998.

Then, the European Council at its summit in Luxembourg in December 1997 started the enlargement process. The main criterion was that the enlargement should take place in stages, depending, for each candidate, on the degree to which it is prepared to join the EU. The accession negotiations were opened with Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia on 31 March 1998. The second stage of enlargement would include the other candidates.

Although Turkey was the first country to sign an association agreement with the Community in 1963 and the first to apply for membership in 1987, the accession negotiations have not yet begun. Because Turkey is also an OIC member, its relations with the Community are taken up in a separate section in this study.

Table 3: Key Indicators of EU Members and Other Major Economies

	Population (mln.1999)	Area (000 km2)	GNP ($bln.1999)	GNP per cap. ($, 1999)	Exports ($mln.1999)	Imports ($mln.1999)
Austria	8	84	210	25970	63840	73357
Belgium	10	33	251	24510	174549	157842
Denmark	5	43	170	32030	49351	44610
Finland	5	338	123	23780	42358	32608
France	59	552	1427	23480	300916	291268
Germany	82	357	2079	25350	535494	464279
Greece	11	132	124	11770	9815	25433
Ireland	4	70	71	19160	70088	45099
Italy	58	301	1136	19710	229913	216491
Luxembourg	0.4	3	19	44640	7746	10732
Netherlands	16	41	384	24320	214756	200362
Portugal	10	92	106	10600	23320	37681
Spain	39	506	552	14000	104707	137877
Sweden	9	450	222	25040	84787	62695
U. Kingdom	59	245	1338	22640	264054	315583
EU	375	3247	8213	21877	2175694	2115917
Share of EU in world (%)	6.3	2.4	28.1	4.5*	38.6	36.5
Memorandum						
United States	273	9364	8351	30600	690689	1048435
Japan	127	378	4079	32230	419207	310733
World	5975	133572	29232	4890	5643800	5793600
Share in the world total (%)						
United States	4.6	7.0	28.6	6.3*	12.2	18.1
Japan	2.1	0.3	14.0	6.6*	7.4	5.4
World	100.0	100.0	100.0	1.0*	100.0	100.0

Source: World Bank (2000), *World Development Report 2000/2001*, p.274-275.
Trade figures: IMF (2000a), *Direction of Trade Statistics*, p.3.
Note: * The figure shows how many times it is bigger than the world's per capita income average.

Since its establishment, the Union has experienced four enlargement processes. The first enlargement included Denmark, Ireland and the United Kingdom in 1973. The others included Greece in 1981, Portugal and Spain in 1986, and Austria, Finland and Sweden in 1995. After joining the Union, Greece, Portugal and Spain recorded very high growth rates and managed to reduce the gap between their economies and those of the other EU members, although their average incomes are still below the EU average.

The CEECs faced very serious macroeconomic difficulties and structural imbalances of varying degrees in the 1990s. During the transition period, they have introduced substantial reforms to reorient their economies. However, their levels of development are still considerably below the European Union's averages. For example, the average per capita income in the EU was about US$ 21,877 in 1999, which is 5.5 times bigger than that in Poland and about 15.9 times greater than that in Romania. In the case of the other candidates also, big differences prevail in their levels of development (Tables 3 and 4).

Table 4: Key Indicators of Candidates

	Population (mln.1999)	Area (000 km2)	GNP ($bln.1999)	GNP per cap. ($, 1999)	Exports ($mln.1999)	Imports ($mln.1999)
Bulgaria	8.0	111	11	1380	3754	5163
Cyprus	0.8	9	9	11960	1000	3618
Czech Rep.	10.0	79	52	5060	26831	31737
Estonia	1.0	45	5	3480	2938	4108
Hungary	10.0	93	47	4650	24849	27894
Latvia	2.0	65	6	2470	1723	2946
Lithuania	4.0	65	10	2620	3004	4835
Malta	0.4	0.3	3	9210	1984	2846
Poland	39.0	323	153	3960	27407	45911
Romania	22.0	238	34	1520	8432	10294
Slovak Rep.	5.0	49	19	3590	10197	11300
Slovenia	2.0	20	20	9890	8505	9889
Turkey	64.0	775	186	2900	26587	40687
All candidates	168.1	1873	556	3307	147211	201228

Source: World Bank (2000), *World Development Report 2000/2001*, p.274-275.
Trade figures: IMF (2000a), *Direction of Trade Statistics*, p.3.

However, as compared to the earlier enlargement processes, this new one is quite challenging. New candidates, including CEECs and the others, with a combined population of about 168 million represent almost 45 percent of the present EU population (Table 4). The digestion of such a huge population of relatively low-income countries will certainly be difficult. Additionally, their economies still suffer structural imbalances and their institutional infrastructures do not function properly.

Actually, the figures measuring the differences in development level show that the EU will face very fundamental challenges to cope with during the process of the enlargement in the coming years.

Obviously, the enlargement is a long and difficult process, because it is not simply a numerical operation that brings together a number of countries. It involves commercial, economic, legal, social and political dimensions. Radical adjustments in such structures of the incoming countries are required. Furthermore, the candidate countries have to comply with the EU principles with respect to establishing true democracies and respect for certain fundamental principles. These are recognition of citizenship rights, abolition of customs duties amongst the partners, adoption of a common customs tariff schedule against third parties, free movement of workers, free movement of goods, services and capital, institutionalisation of free competition, equal treatment of nationals and foreigners in all areas. The compliance with these conditions and the removal of all barriers in this connection are prerequisites for accession to the EU.

With these considerations in mind and to prepare these countries for accession, the EU determined a pre-accession strategy for them aiming to solve their problems before accepting them as new members. The EU concluded "Europe Agreements" with the CEECs between 1991 and 1996. These agreements aim to harmonise the economies of the candidates with the EU. But their scope is not limited to only trade and economic co-operation issues. Because of the special political and strategic relationships between the CEECs and the EU members, these agreements also create dialogue on political, cultural, institutional and legal matters, and aim to reach a harmonisation on these subjects.

First, the agreements provide for the establishment of a free-trade area at the end of a ten-year transition period. During this period, in general, while the EU was dropping all duties on products imported from the new comers, in return, these countries undertook to remove gradually customs duties on import products from the Union. To this end, a timetable sets precise schedules for each product, modified according to the country concerned. The EU members' obligation to reduce their customs duties and other barriers to imports more rapidly will enable their partners to restructure their economies before opening their markets to free competition from EU products.

The Union's customs duties were abolished immediately for most industrial products in order to provide free access to the EU market. In the year following the commercial provisions' entry into force, two-thirds of industrial exports to the EU were exempted from duty. On the other hand, for some products such as pig iron, crude iron, steel, aluminium, leather and skins, tariffs are to be phased out gradually. Duty-free imports of some other products like chemicals, cars, consumer electronics, shoes, etc., will be allowed into the EU, but they will be subject to limitations in terms of import quotas in the transition period. Agricultural products are outside the scope of the free-trade agreements. But, for a period of five years, there will be mutual concessions in the form of import duty or quota reductions. The agreements also provide for anti-dumping measures and safeguard clauses that are open to relatively broad interpretation and, as a result, to frequent application by the parties.

Table 5: The Phare Programme 1990-1999
(Commitments in million euros)

Poland*	2035
Romania	1191
Hungary*	989
Bulgaria	870
Czech Republic*	476
Slovak Republic	356
Lithuania	341
Latvia	251
Estonia*	196
Slovenia*	194
Total	6899

Source: European Commission, *European Union Enlargement*, p.44.
Note: * The accession negotiations were started on 31 March 1998.

On the other hand, these agreements envisage that the EU will extend financial assistance to help finance the economic and social reforms in the CEECs. For this purpose, the Union initiated the *Phare Programme,* an aid package initially intended for Poland and Hungary. Then the Programme is extended to include all the CEECs. It aimed to help the candidate countries restructure their economies and facilitate the process of social and economic change with a view to making their integration with Europe smoother. Table 5 shows the distribution of the financial commitments within the framework of the *Phare Programme* between 1990 and 1999. Furthermore, in accordance with the decision of the Berlin European Council held in March 1999, the *Phare* will provide to the CEECs 1,560 million euros per year from 2000 to 2006.

Beginning with the year 2000, the *Phare Programme* will be complemented by two other financial aid packages, namely *Pre-Accession Instrument for Structural Policies* (ISPA) and *Special Accession Programme for Agriculture and Rural Development* (SAPARD). ISPA, better known as structural instrument, is a pre-accession assistance worth 1,040 million euros per year starting from 2000. ISPA aims to raise the infrastructure standards in transport and environment sectors of the candidate countries. On the other hand, SAPARD, better known as agricultural instrument, is designed as a pre-accession assistance for the candidate countries in agricultural development amounting to 520 million euros per year, available from the year 2000. These three programmes will provide about 3,120 million euros per year to the candidate countries from Central and East Europe.

Within the framework of these Agreements, the Union also develops and diversifies economic, scientific and technical links with the CEECs to help support their internal structural changes and to integrate more closely into the international trading system. The agreements also have a political dimension, providing for dialogue between partners on bilateral and global issues within the association council. Furthermore, the candidate countries have responsibility in adapting and implementing the Community legislation and strengthening their democratic institutions, public administrations and organisations. They are expected to implement the Community’s legislation fully, effectively and efficiently. This requires training of civil servants, public officials, and professionals. For this purpose, a mechanism, namely *twinning*, was created. This project brings together public administrations and semi-public organisations in candidate countries with their counterparts in the EU members with a view to assisting them during the reorganisation of their institutional activities.

2.1. Turkey's Accession to the European Union

Turkey made its first application to join the European Economic Community (EEC) in July 1959, soon after its creation in 1957. The negotiations resulted in the signing of an Association Agreement between Turkey and the European Economic Community, better known as the **Ankara Agreement** on 12 September 1963. This agreement entered into force on 1 December 1964 and aimed to integrate Turkey with the EEC through the establishment of a customs union between Turkey and the European Economic Community. The customs union was to be realised in three phases and it would eliminate the development gap between Turkey and the EEC.

The Ankara Agreement also included free circulation of services, labour and capital between the signatory parties in addition to free trade of goods. The customs union to be established between Turkey and the EEC aimed to reach to the stage of application of common external tariffs against the import products originating from the third parties. Furthermore, the Agreement also envisaged harmonisation with the EEC policies in the domestic market. However, it excluded Turkey from the EEC's decision-making mechanisms. The Ankara Agreement still constitutes the legal basis of the Association between Turkey and the EU.

In 1970, Turkey also concluded the **Additional Protocol**, which determined the mechanism on how the Customs Union would be established between the partners. Upon the entry into force of the Protocol, the EEC would abolish tariffs and quantitative barriers to its imports from Turkey, with some exceptions including fabrics. In turn, Turkey would do the same in accordance with a timetable of 12 and 22-year periods. Meanwhile, Turkish economic legislation would also be harmonised with that of the EEC. Furthermore, the Protocol envisaged the free circulation of people between the Parties within the framework of this timetable. During this period, agricultural exports of Turkey in particular benefited from this agreement.

However, the Additional Protocol could not be implemented fully, and Turkey applied for full membership in 1987, on the basis of the Treaty of Rome Article O (now Article 49 of the Treaty of Amsterdam), which formulates the eligibility condition for membership. Turkey's application was considered within the framework of the Treaty of Rome, but not under the relevant provisions of the Ankara Agreement. The European Commission was of the opinion that Turkey was eligible for membership, but detailed analysis of Turkey's application would be postponed, because the European Community (EC) was very much occupied with the problems relating to the establishment of the Single Market amongst its members. Additionally, it emphasised the need for a comprehensive co-operation programme between the Parties and assigned the importance to the completion of the Customs Union in 1995. The European Council endorsed this opinion on 5 February 1990.

Negotiations for the completion of the Customs Union between Turkey and the European Union (EU) commenced in 1994 and were finalised on 6 March 1995 at the Turkey-EU Association Council. The Association Council decided to complete the Customs Union in industrial and processed agricultural goods by 31 December 1995.

With the completion of the customs union, Turkey abolished all customs duties and charges on imports of industrial goods from the EU. Turkey also continues to harmonise its tariffs and equivalent charges on imports of industrial goods from third countries with the EU's Common External Tariffs and its commercial policies, and economic and commercial legislation with those of the EU.

Meanwhile, the European Council in Luxembourg in December 1997 took a decision to start the enlargement process by opening the accession negotiations with the first six countries in March 1998. As far as Turkey was concerned, the EU considered that the criteria for membership under the present political and economic conditions had not been satisfied yet. However, the Council admitted that Turkey is eligible for the EU membership and invited her to join the European Conference. This Conference was intended to bring together the Member States of the EU and the other European countries who are willing to join the Union and share its values, objectives and commitments. However, Turkey, claiming that it was discriminated against and not evaluated on equal grounds with the other applicants, declined to attend this Conference.

However, the European Council at its meeting in Helsinki on 10-11 December 1999 corrected this situation and declared that Turkey is "a candidate State destined to join the Union on the basis of the same criteria as applied to the other candidate States … [it] will benefit from a pre-accession strategy to stimulate and support its reforms."[1] In other words, the EU officially recognised Turkey without any precondition as a candidate state on an equal footing with the other candidate states. Furthermore, Turkey, like other candidate states, will benefit from a pre-accession strategy to stimulate and support its reforms.

2.2. The EU's Relations with Mediterranean Countries

The south Mediterranean countries (or North Africa) and the Middle East are areas of vital importance to the European Union. The European Council has identified the region as **key external relations priority for the EU**.

With the Euro-Mediterranean Conference of Ministers of Foreign Affairs held in Barcelona, Spain on 27-28 November 1995, the EU placed its relations with the non-member countries in the Mediterranean region on a new plane. This initiative is known as the Euro-Mediterranean Partnership or Barcelona Process. It includes a wide framework of political, economic and social relations between the 15 Member States of the European Union and 12 Partners of the southern Mediterranean, namely Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestine, Syria, Tunisia, and Turkey. At the end of the proceedings, the EU and its Mediterranean partners adopted the Barcelona Declaration in which they decided to put their relations on a multilateral and durable foundation based on a spirit of partnership. This new partnership was defined along the three main objectives as follows:

- The definition of a common area of peace and stability through the reinforcement of political and security dialogue (Political and Security Chapter);
- The construction of a zone of prosperity through an economic and financial partnership and the gradual establishment of a free trade zone (Economic and Financial Chapter);

[1] The conclusions of the Helsinki Summit are available on the EU's website at http://europa.eu.int.

- The rapprochement between peoples through a social, cultural and human partnership aimed at encouraging understanding between cultures and exchanges between civil societies (Social, Cultural and Human Chapter).

The long-term goal of the Barcelona Process is to create an extensive free trade area, backed up by substantial financial aid. It also comprises two complementary frameworks as follows:

- At the bilateral level, the EU negotiates Euro-Mediterranean Association Agreements with the individual Mediterranean Partners.

- At the multilateral level, a regional dialogue was established to discuss the political, economic and cultural issues. This dialogue also supports and completes the bilateral actions taking place under the Association Agreements.

The Euro-Mediterranean Agreements cover both the general principles governing the new Euro-Mediterranean relationship and specific issues designed according to the relations between the EU and each Mediterranean Partner. The EU concluded *Association Agreements* with Cyprus, Malta and Turkey, and *Co-operation Agreements* with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria and Tunisia. The three Mediterranean partners, namely Cyprus, Malta and Turkey also applied for EU membership and their relations with the Union are being handled within that framework.

Later, the Co-operation Agreements signed with some Mediterranean countries were replaced with the Association Agreements. In this regard, Palestine (1.7.1997), Tunisia (1.3.1998), Morocco (1.3.2000), and Israel (1.6.2000) will be cited (in order of date of entry into force, see Annex).

These agreements aim to establish free trade in accordance with the WTO rules amongst the participating countries. The agreements provide free access to the EU market for industrial goods originating from the Mediterranean partners. Trade in agricultural products and services will be liberalised gradually over a transitional period. They aim at greater harmonisation between the EU and the Mediterranean partners.

Furthermore, they also include provisions on maintenance of a high level of protection of intellectual property rights, gradual liberalisation of public procurement, competition policy, state aids and monopolies, liberalisation of capital movements, economic co-operation in sectors such as industry, environment, energy, transport, etc. The Agreements also provide for financial assistance for the partners.

In order to implement the Barcelona Process, a project, namely Mediterranean Assistance (MEDA) programme, has been introduced as the main financial instrument. MEDA intends to provide financial and technical assistance to support the socio-economic structural reforms in the Mediterranean partners. In this regard, it aims to increase the competitiveness of these countries, in particular through development of the private sector. It also aims to alleviate the short-term costs of economic transition through appropriate measures in the field of social policy.

Between 1996 and 1999, MEDA committed over 3,400 million euros out of 4,685 million euros allocated for the Mediterranean countries. During this period, 40 percent of total commitments went to classical development projects (rural development, basic health care, education, drinking water, sewage, etc.,) 30 percent to economic transition and private sector development, 16 percent to structural adjustment and 14 percent to regional projects. For the period 1996-1999, although the commitments amounted to over 3,400 million euros, cumulative payments could reach 890 million euros, or 26 percent of the commitments made over the same period. In 2000, available MEDA funds amount to 945 million euros. Nine OIC Mediterranean countries, namely Algeria, Egypt, Jordan, Lebanon, Morocco, Palestine, Syria, Tunisia, and Turkey, are eligible to benefit from the MEDA funds.

In addition to trade liberalisation with the EU, the Mediterranean countries also committed to liberalise trade amongst them. Furthermore, the year 2010 was set as a target date to implement the Barcelona Declaration’s objective of gradual establishment of an Euro-Mediterranean Free Trade Area. The Euro-Mediterranean Free trade Area envisages free trade in manufactured goods and gradual liberalisation of trade in agricultural products. This Free Trade Area will bring together the EU and its Mediterranean partners. When it is implemented, this Free Trade Area will include the present 15 EU members, 13 candidate countries for EU enlargement and 10 other Mediterranean neighbours. In other words, it will be the world's most important trade bloc with a population of more than 700 million.

The implementation of the Barcelona Declaration will be monitored through periodic meetings of the Foreign Ministers and *ad hoc* meetings. A committee, namely the Euro-Mediterranean Committee for the Barcelona Process, was established to follow up the implementation of the work programme on regional co-operation. It also prepares for ministerial meetings, ad hoc conferences of ministers and of senior officials, experts and representatives of civil society. The Committee is composed of representatives of the European Union and the Mediterranean partners and meets on a quarterly basis at senior official level.

Since the Barcelona Conference in 1995, two other Euro-Mediterranean Conferences of Ministers of Foreign Affairs were held in Malta in April 1997 and in Stuttgart in April 1999. During the Stuttgart conference, Libya was welcomed for the first time as a special guest. An informal Foreign Ministers' Meeting took place in Palermo in June 1998 and in Lisbon in May 2000.

3. INTRODUCTION OF THE EURO AND RECENT DEVELOPMENTS

3.1. Establishment of the European Monetary Union and Introduction of the Euro

The road to the establishment of the European Economic and Monetary Union and the launching of the single currency was a long one, with ups and downs. There was, however, a systematic and structured effort, and a clear-cut political will and determination to establish the economic and monetary union and to introduce a common currency.

As the first concrete step in this regard, the European Monetary System (EMS) was established and the European currency unit (ECU) was created as a unit of account following the decision by the European Council in Bremen in July 1978. Eight member states, excluding the United Kingdom, participated in the EMS. The ECU was defined as a basket of the currencies of the participating countries in March 1979.

After a decade, at the Maastricht Summit (9-10 December 1991), the Member States agreed on the Treaty on European Union (EU). This Treaty aimed to develop the European Community into an economic and monetary union and to introduce a single European currency by 1999 at the latest. In accordance with the decisions of the Maastricht Summit, the Single Market was realised and capital movements were liberalised within the whole region at the beginning of 1993.

As a next step, the European Monetary Institute (EMI) was established in Frankfurt on 1 January 1994. It was responsible for strengthening co-operation between the national central banks and the co-ordination of Member States' monetary policies. Procedures for co-ordinating economic policies at the European level were strengthened. Member States agreed to combat excessive deficits and to achieve economic convergence amongst the economies of the participating countries.

The Madrid European Council (15-16 December 1995) adopted the name *Euro* for the European single currency. The Council also agreed on the technical scenario for the introduction of the 'Euro' and the timetable for the changeover to the single currency on 1 January 1999. The completion of the process was scheduled for 2002.

Meanwhile, towards the end of December 1996, the European Monetary Institute (EMI) determined the regulatory, organisational and logistical framework for the European Central Bank (ECB) and the European System of Central Banks (ESCB). On 1 June 1998, these organs became operational. Willem Duisenberg, the former Governor of the Dutch Central Bank, was appointed as the first President of the ECB for an eight-year term. The ESCB is composed of the ECB and the national central banks of the EMU members. Its primary task is to ensure price stability in the Euro zone. It has one decision-making body: the Governing Council. Its members are the six members of the executive board of the ECB, and the 11 governors of the participating central banks. But they are members in their personal capacity. That is, they represent neither a country nor a national central bank.

On 1 January 1999, the Euro was launched in 11 countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain. Britain, Denmark and Sweden chose not to join from the start, while Greece failed to meet the criteria to join the system. The conversion rates were fixed irreversibly and irrevocably between the currencies of the participating countries both amongst themselves and the Euro. Presently, the Euro serves as bank money. That is, it is being used in bank operations and foreign exchange transactions, but it is not put into circulation in the form of bank notes and coins.

According to the already agreed timetable, the European Central Bank (ECB) will put the Euro notes and coins into circulation on 1 January 2002. Then, Member States will start to withdraw gradually national bank notes and coins. Yet, the Euro and the national currencies will continue to serve side by side as legal tender until the final deadline, 1 July 2002. Then, national bank notes and coins will be withdrawn completely from circulation and the changeover to the Euro will be completed in the Euro zone.

3.2. Recent Developments in the Value of the Euro

In the previous sub-section, we have tried to summarise the necessary steps leading to the establishment of the monetary union and the introduction of the single common currency, the Euro, on a chronological basis. However, it must be stressed that the whole process is not finalised yet. The final stage will be completed after the removal of national bank notes and coins.

When the Euro was first launched on 1 January 1999, its nominal value was equal to 1.1785 US dollars. At the end of the same year, it deteriorated to 1.008 dollars on the international currency markets, a fall by about 14.5 percent. During the year 2000, it continued to decline to 0.856 US dollars as of end of November 2000, a further drop by 15.1 percent, against all the positive expectations at the beginning.

Now, it has become a source of concern for the European Central Bank (ECB) and the other European policymakers and citizens. It is very difficult to explain the reasons behind this development. One major reason may be the very strong economic performance of the US in recent years as compared to the stagnating economic growth in the EU. The US economy is operating at a state very close to full employment, with unemployment at a 30-year low rate of 4.2 percent in 1999, a low inflation rate of 2.2 percent in the same year and a prolonged economic growth. Another reason could be the difference between the rates of interest applicable on these currencies. The investors choose to invest in the US dollar deposits rather than the Euro.

Recent projections envisage an economic improvement in the EU member countries, although economic growth has stagnated in the EU over the last two years. Real GDP growth rate in the EU dropped from 2.7 percent in 1998 to 2.4 percent in 1999, as compared to 4.4 and 4.2 percent real GDP growth rates in the US, respectively in 1998 and 1999 (Table 6). But, projections about the future of the Euro area are more optimistic (see Table 6). A rise in the GDP growth rates are expected, stimulated by increasing exports due to the strengthening global recovery and highly cheap and competitive currency. A recovery in the economies of the EU countries may reverse the falling trend of the Euro and may create positive prospects for the Euro. Furthermore, a stronger Euro is likely to further improve the economic growth prospects of the European countries in the medium term.

Table 6: Main Indicators in the Major Economies

(Average annual increase, in percent)

	Euro Area	United States	Japan
Real GDP			
1998	2.7	4.4	-2.5
1999	2.4	4.2	0.2
2000 p.	3.5	5.2	1.4
2001 p.	3.4	3.2	1.8
Consumer prices			
1998	1.1	1.6	0.6
1999	1.2	2.2	-0.3
2000 p.	2.1	3.2	-0.2
2001 p.	1.7	2.6	0.5
Unemployment			
1998	10.8	4.5	4.1
1999	9.9	4.2	4.7
2000 p.	9.0	4.1	5.0
2001 p.	8.3	4.4	5.3

Source: IMF, *World Economic Outlook October 2000,* p.10.
Note: “p.” stands for projection.

At the beginning, the expectations about the Euro were quite positive: it would emerge as a strong currency against the major international currencies like the US dollar and the Japanese yen. Furthermore, the Euro was expected to become an international reserve currency. It could be used as an international currency in transactions, investments and reserve holdings of the central banks. Within the framework of these expectations, the central banks and monetary authorities of the developing countries, including the OIC countries, having close trade and investment relations with the EU, started to hold Euro reserves following its launching on 1 January 1999.

In the past, after the gold standard, British sterling served as the major international reserve money. After the Second World War, a new international financial system was established under the surveillance of the Bretton Woods Institutions, the International Monetary Fund (IMF) and the World Bank (IBRD). The US dollar was able to replace the British sterling. However, confidence in the US dollar as an international exchange and reserve currency started to erode since the 1970s. Furthermore, the success story of the European integration created a belief that the new European currency, the Euro, will easily assume a role as reserve money and may replace the US dollar in this regard. However, developments in the real world took the opposite direction. The Euro as bank money depreciated against the major international currencies as compared to its initial launching value.

In this regard, most of the OIC countries, in particular those in the Mediterranean region, the Middle East and Africa, were also affected adversely by the depreciating Euro, because of their existing close relations with the EU members. Especially, the countries holding Euro reserves suffered considerable losses due to its depreciation.

However, it is still very early to talk about the future behaviour of the Euro against the major currencies and its impact on the world economy as a whole and on the economies of the other developed, developing and the OIC countries. Furthermore, continuous depreciation of the Euro against major international currencies like the US dollar and the Japanese yen made European goods and services cheaper as compared to products originating from other countries. In other words, depreciation in the Euro increased the competitiveness of the European economies. Additionally, in line with recent positive projections envisaging an economic improvement in the EU countries, one may expect that the falling trend of the Euro will be replaced by an upswing.

4. IMPLICATIONS OF THE EU ENLARGEMENT FOR THE OIC COUNTRIES

The enlargement of the EU in addition to the completion of the single market and the establishment of the economic and monetary union will have an important impact on the global economy, and in particular the developing countries, including the OIC countries. This impact will be felt directly or indirectly in many areas, including the international trade in goods and services, investments, migration, competition policy, international job division. The EU is not only an economic and monetary union; it also aims to harmonise human and social policies amongst its members. However, its impact on world affairs results from its position as the major economic actor in the world economy. Especially the economic and commercial achievements of the EU countries during the 1990s played an important role in this regard. With the completion of the enlargement process during the first decade of the new millennium, it will become an entity much more important than ever. The main effects of the enlargement process will be felt through the changes in the direction of migration, workers remittances, foreign direct investments (FDI), and other economic policies within the EU region and increasing economic and political strength of the EU at the world scale.

One basic impact will be felt through the change in direction of the migration flows. Because of the free movement of labour within the Union, migration from the CEECs towards the more developed EU members is likely to replace the masses from the Mediterranean neighbours and the African countries.

As we all know, migration is often motivated by economic conditions. People migrate because they dream of a better life abroad. Hence, the basic reason behind migration is the differences in the level of development or welfare between the countries. Otherwise, people prefer staying at home with their families, relatives and friends. It is obvious that when the difference is high, people tend to migrate more, or vice versa. Of course, present levels of income and welfare differences between the present EU members and the CEECs are high enough to stimulate such a massive migration.

Table 7: Foreign Direct Investment (FDI) by Country (1989-1998)

	Total FDI by 1.1.1999 (∈ million)	Total FDI per head (∈)	FDI in 1998 (∈ million)	FDI per head in1998 (∈)	EU share in total FDI (%)
Hungary*	14902	1473	1517	150	72
Poland*	13439	347	5888	153	77
Czech Rep.*	8396	863	2230	217	82
Romania	4023	178	1820	80	60
Slovenia*	1062	531	137	69	75
Latvia	1413	565	178	71	53
Slovak Rep.	1137	210	223	41	71
Bulgaria	1147	138	325	39	63
Estonia*	1224	844	504	348	77
Lithuania	1394	376	847	229	57
Total	48137		13669		73

Source: European Commission, *European Union Enlargement: A Historic Opportunity*, p.42.
Note: Conversion of 1998 data at rate of 1 euro = $1.121 and 1997 data at 1 euro = $1.134.
Note: * Accession negotiations were started on 31 March 1998.

On the other hand, at the beginning, people migrate on a temporary basis: they spend their holidays in their home country with their families and relatives, send their savings to home and try to obtain property at home. They always expect to return home. In this context, one may consider that future expectations also play an important role in people's migration decisions. If they expect an economic improvement in their home country, they may postpone migration or even do not migrate at all. Otherwise, they try to migrate and settle down abroad as soon as possible. Thus, their migration decision becomes permanent. In other words, even if the levels of income and welfare differences are too much between the present EU members and the newcomers, positive expectations about improved economic conditions at home (CEECs) may also limit massive migration towards the more developed EU members. However, in this case, to create such positive expectations about the future economic conditions in these countries, there should be substantial flows of foreign direct investments towards them. In other words, the present EU members will tend to invest more in the CEECs to prevent a massive inflow of migrant workers from these countries.

Table 7 shows the volume of foreign direct investments towards the candidate countries of central and East Europe. Total investments in these countries amount to 48.1 billion euros (US$ 54 billion) during the period of 1989-1998. Meanwhile, the shares of the EU countries in total FDI vary from 53 to 82 percent in these countries. The EU share amounts to 73 percent on average. The figure shows that the EU stake in these countries is quite high, approximately three fourths of the total. Furthermore, only in the year 1998, the volume of FDI was 13.7 billion euros (US$ 15.3 billion). In other words, more than 28 percent was invested just in one year. It is quite likely that the FDI towards these countries will accelerate after accession negotiations are opened with these countries.

The facts summarised above imply that the interest of the EU countries shifted in favour of the CEECs, especially as compared to the period preceding the fall of the Berlin Wall. This also means that the funds that could have been invested in other developing countries, including the OIC countries, particularly those in the Middle East and Africa, were invested in the CEECs. As accession negotiations start, more and more investment will go to these countries. Furthermore, it is quite likely that private firms from other developed countries like the US and Japan will invest in these countries to be able to enter the European markets. In the future, more FDI flows from present EU members, the US and Japan will be directed towards these countries instead of being invested in the developing countries, including the OIC countries.

With 375 million wealthy consumers, the EU is the biggest single market in the world and will be even much bigger in the future, when candidate countries from Central and East Europe and the Mediterranean become members. In addition to the countries in the process of enlargement, the EU intends to establish a Free Trade Area together with the Mediterranean neighbours.

Regarding foreign trade, the EU’s role is much more important: its share in world exports was about 38.6 percent and in imports about 36.5 percent in 1999. These figures were much higher in earlier years particularly in 1998. Because of the deterioration of the Euro against the US dollar, the foreign trade of EU member countries appears to be declining (see Table 8).

Table 8: Foreign Trade of Major Economies

	Exports (Billions of US dollars)					Imports (Billions of US dollars)				
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999
EU	2018	2075	2188	2247	2176	1914	1956	2095	2186	2116
US	583	623	688	680	691	771	818	899	945	1048
Japan	443	411	421	388	419	336	350	339	281	311
OIC	342	381	392	320	383	352	380	412	397	370
World	5068	5285	5600	5483	5644	5134	5377	5699	5636	5794
	Exports (as percent of the world total)					Imports (as percent of the world total)				
EU	39.8	39.3	39.1	41.0	38.6	37.3	36.4	36.8	38.8	36.5
US	11.5	11.8	12.3	12.4	12.2	15.0	15.2	15.8	16.8	18.1
Japan	8.7	7.8	7.5	7.1	7.4	6.5	6.5	5.9	5.0	5.4
OIC	6.7	7.2	7.0	5.8	6.8	6.9	7.1	7.2	7.0	6.4
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: IMF (2000a), *Direction of Trade Statistics*, p.3-9.

After the completion of the single market amongst the EU members, there are no internal frontiers now. Harmonisation of regulations and standards has facilitated the free circulation of goods and services. When candidate countries join the EU, a single set of trade rules, a single set of customs tariffs, and a single set of customs procedures will apply across the enlarged Union in the future. In this case, economic operators from other countries of the world should be obliged to comply with these sets of mechanisms, rules and procedures in their dealings with the newcomers.

The EU, being aware of its global role as one of the main actors, pushes for freer trade in goods and services over the world. It supports the liberalisation of global trade within the framework of the WTO and even goes further to place other topics on the WTO agenda, like investments, trade and labour standards, competition policy, government procurement, etc. By placing such matters on the WTO agenda, it expects to reorganise global trade in accordance with its terms and conditions and, of course, to benefit more on the global scale.

In the future, particularly after the completion of the enlargement process and the establishment of the Euro-Mediterranean Free Trade

Area, the EU may easily become a rule-making organisation. Even today, European standards for importation of goods are highly detailed, qualified and at the same time very much limiting. They include measures or standards on sanitary and phytosanitary issues, animal health, environmental aspects, etc. Although they are considered as simple prerequisites for exports to the Union, thousands of pages long of European trade rules act in fact as real barriers. In particular, small and medium sized enterprises (SME) from developing countries or the OIC countries will not be able to cope with them. Learning and understanding these trade rules also mean an additional cost to these companies. Even if they manage to learn the EU trade legislation, they will not be able to produce their products according to these standards, either because their technologies will not allow it or because they will not be able to keep their production costs at competitive levels. This attitude may increase and deepen in the future. In this way, the EU will be able to protect its domestic markets through highly detailed and qualified technical standards based on health, environment, labour rights, human rights, etc. Any product, which does not comply with these standards, will not be let into the EU.

Now, the EU intends to include such technical and sanitary standards and other non-tariff barriers as part of the WTO agreements. Even if it fails to do so, by making use of its major position in international trade, it will force its trade partners to adopt and comply with these rules and standards at every stage of production processes in their domestic markets. These EU standards, rules and procedures are not limited to the trade of goods only; they also cover the trade in services. Thus, suppliers of goods and services, (transport, telecommunications, insurance, banking, etc.), from the rest of the world should comply with these sets of rules and procedures. Otherwise, they will not be permitted to enter the European markets. On the other hand, due to the high quality and competitiveness of their products, their European counterparts may easily enter the other markets within the framework of the non-discrimination provisions of the WTO agreements in various fields like trade in goods, services, etc. When the intention of the EU to include new areas such as investment, competition policy, labour standards, etc., is added to the above picture, the basic motive behind the EU's call for a new comprehensive millennium round will be understood better.

5. CONCLUSION

The experience of the EU in increasing commercial, economic and monetary integration amongst its members provides a model for the OIC countries. The OIC countries actively take part in multilateral trade negotiations within the framework of the WTO to seek solutions for the problems caused to them by the implementation of the WTO agreements. But, as the EU members and the other developed countries, the US, Japan, etc., are doing, they should also intensify their efforts to strengthen economic and commercial co-operation amongst them to realise the ultimate objective of establishing an Islamic Common Market.

Regional integration schemes increase economic growth, through creating opportunities to exploit economies of scale, regional specialisation, learning-by-doing, and attracting investments by expanding the regional markets.

It is obvious that regional integration increases the efficiency and competitiveness of the companies and the industries in the region. In doing so, it prepares and strengthens these firms and industries for a tougher competition at the international level. The EU experience provides enough support for this phenomenon. For many years, companies in the EU tried to redress themselves and to strengthen their productivity and competitiveness. They were prepared not only for European integration, but also for international competition. Now, it is not difficult to understand why the EU is pressing so much for launching a new round of multilateral trade negotiations to widen the scope of the WTO agreements and to place some other topics like labour standards, investments, competition policy, government procurement, etc., on the WTO agenda.

Furthermore, while the EU would like to launch a new round of trade talks to further liberalise trade on the global scale, it expands the details of standards, rules and procedures to comply with for importing into the Union. Such a detailed set of technical standards, health and quality regulations, antidumping actions and rules of origin, in short, thousands of pages long EU legislation on trade rules and procedures constitute the most effective barrier to the exports of the developing and the OIC countries to the EU.

The EU legislation on trade mechanisms, rules and procedures, technical standards, sanitary and phytosanitary measures and others are being applied to all companies. However, the companies of the EU countries and those of other industrialised countries, particularly the multinational corporations, have already adjusted themselves to be still competitive under these circumstances by making use of their high levels of technologies, economies of scale and specialisation.

However, it is also a well-known fact that the companies of the developing countries, including the OIC members, in general, are not very powerful as compared to their counterparts in the industrial countries. Their capital, size, and cost structures do not permit them to recruit specialists to study the EU trade legislation and to follow-up the amendments. For this reason, the OIC institutions operating in the area of trade may, together with export promotion organisations, establish the necessary mechanisms to inform the member countries on a product basis about the present EU legislation and possible changes to be done in the future concerning important export items of member countries.

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ANNEX

THE EU REGIONAL TRADE AGREEMENTS WITH THE OIC COUNTRIES

(As of 22 November 2000)

Agreements notified under GATT Article XXIV
(Free Trade Areas and Customs Unions)

Partners	Nature of Agreement	Date of Entry into Force	Date of Notification to WTO	Other comments
Algeria	Co-operation Agreement	1.7.1976	28.7.1976	Euro-Mediterranean Agreement under negotiation
Egypt	Co-operation Agreement	1.7.1977	15.7.1977	Euro-Mediterranean Agreement awaiting signature
Jordan	Co-operation Agreement	1.7.1977	15.7.1977	Will be replaced by Euro-Mediterranean Agreement signed on 24.11.97 once this enters into force
Lebanon	Co-operation Agreement	1.7.1977	15.7.1977	Euro-Mediterranean Agreement under negotiation
Morocco	Association Agreement	1.3.2000	13.10.2000	Euro-Mediterranean Agreement, replacing earlier Co-operation Agreement
Palestine	Association Agreement	1.7.1997	30.6.1997	Interim Euro-Mediterranean Agreement
Syria	Co-operation Agreement	1.7.1977	15.7.1977	Euro-Mediterranean Agreement under negotiation
Tunisia	Association Agreement	1.3.1998	23.3.1999	Euro-Mediterranean Agreement, replacing earlier Co-operation Agreement
Turkey	Decision 1/95 of the EC-Turkey Association Council	31.12.1995	22.12.1995	Final phase of Customs Union

Agreements under negotiation

Partner	Agreement	Remarks
Algeria	Euro-Mediterranean Association Agreement	Negotiations began in 1997
Egypt	Euro-Mediterranean Association Agreement	Agreement awaiting signature
GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE)	Co-operation and Free Trade	Negotiations began in 1990
Lebanon	Euro-Mediterranean Association Agreement	Negotiations began in 1995
Syria	Euro-Mediterranean Association Agreement	Negotiations began in 1998
Turkey	Decision of the EC-Turkey Association Council on the Liberalisation of Services and Public Procurement	Negotiations launched in 2000 to extend the existing Customs Union through the liberalisation of trade in services (and the mutual opening of procurement markets)

Source: http://europa.eu.int/comm/trade/pdf/ecrtagr.pdf.