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EU ENLARGEMENT AND IMPLICATIONS FOR THE OIC COUNTRIES

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The enlargement of the European Union (EU) will bring a new impetus to its relations with neighbouring regions and those countries that have close economic ties with it, including the OIC members. The main effects of the enlargement process will be felt through changes in the direction of foreign trade in goods and services, international migration, workers' remittances, foreign direct investment (FDI) flows, international job division and other related economic policies, and increasing the Union's economic strength worldwide. Hence, Turkey other OIC countries in the Mediterranean and the Gulf Cooperation Council Countries (GCC) will face ever-increasing challenges arising from the enlargement. At the same time, the enlargement may also generate a set of opportunities for neighbouring Mediterranean and African OIC countries. Foremost among these is the opening of the domestic markets of the newly-acceding countries through the Barcelona Process.

This paper examines the possible implications of the EU enlargement on the economies of the relevant OIC member countries. It discusses the dependence of developing countries, including OIC members, on the 'euro' after giving an extensive overview of recent developments related to it vis-à-vis other international currencies. The paper concludes that putting the 'euro' into circulation will make the Union ever more important and it will increase the efficiency and competitiveness of the companies and industries in the region.

1. INTRODUCTION

New memberships have testified to the enormous growth of the European Union (EU) since the founding six members[1] created a single market for their coal and steel industries on 18 April 1951 by signing the Treaty establishing the European Coal and Steel Community (ECSC),

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[1] Belgium, France, Germany, Italy, Luxembourg and the Netherlands.

which entered into force on 23 July 1952. This initiative was later followed by the creation of the European Economic Community (EEC) on 25 March 1957 with the Treaty of Rome. Since its establishment, the EU has experienced four enlargement processes (Table B1, Annex B). By 1996, except for Iceland, Norway, Switzerland, and Liechtenstein, all Western European countries had fully joined the EU.

The recent enlargement of the EU has created new political and economic dynamics. Along with the benefits of the enlargement, the EU and its new Member States will face many challenges, including the adaptation and implementation of all current EU legislation and standards. Since the EU has already become a major global economic player, its growing power will have a significant impact on all regions of the world, including the OIC Member States.

The EU and OIC countries have traditionally maintained strong political and economic relations. These relations have primarily been developed through trade, EU investments, bilateral association agreements and financial protocols.

The current enlargement of the EU will affect its relations with the OIC countries, particularly those neighbours in the Mediterranean region that have closer economic and historical with the EU members. On the other hand, as the new enlargement will increase business opportunities, the OIC countries need to enhance their relations with the EU to benefit more substantially. This is likely to start a new process that would lead to further regional cooperation between the EU and those countries.

This paper mainly aims to assess the economic implications of the EU enlargement for the OIC countries. The second section reviews the enlargement process and the EU's relations with the Central and East European Countries (CEECs), Turkey, OIC Mediterranean partner countries and countries of the Gulf Cooperation Council (GCC). The third section discusses the effects of the introduction of the single currency "euro". The fourth section discusses the implications of EU enlargement for the economies of the OIC countries. The paper ends with concluding remarks on the overall impact of the EU enlargement.

2. EU ENLARGEMENT AND RELATIONS WITH THE OIC COUNTRIES

Since its establishment, the EEC has grown greatly in terms of its membership, organisational infrastructure and economic and commercial influence and it has created a strong economic growth and development potential for its members. Its success in providing those members with prosperity has attracted the attention of countries around the globe as well as the countries of Central and Eastern Europe.

The CEECs started to establish closer relations with the Union by signing cooperation agreements called *Europe Agreements*. These included, inter alia, cooperation projects in a number of sectors with a view to establishing a free trade area (FTA) between the parties. Hungary and Poland were the first countries to sign such agreements in December 1991. Bulgaria, the Czech Republic, Romania, Slovakia, Estonia, Latvia, Lithuania and Slovenia followed them. All those agreements came into force by February 1998 (Table 1). Furthermore, another set of agreements, namely the Association Agreements, covering similar areas, was signed with Turkey, Malta and Cyprus.

TABLE 1: Europe Agreements with Central and East European Countries (CEEC)

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 Republic	October 1993	February 1995
Romania	February 1993	February 1995
Slovakia	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: http://www.europa.eu.int/comm/enlargement.

These agreements played a significant role in helping the CEECs strengthen their economic and commercial relations with the Union.

Trade between those countries and the EU has been liberalised through those agreements which aimed at progressively eliminating the majority of tariff barriers on traded goods and services. Nevertheless, some restrictions remained, particularly in steel and textiles. Furthermore, since agricultural products were not included in the liberalisation process under the agreements, the removal of protection for such products is only expected to take place after the enlargement.

The Europe Agreements also recognised the rights of the CEECs to become full members of the European Union. Therefore, by 1997, all the CEECs applied for membership (Table 2). EU membership requires that new members implement the 'acquis communautaire' and establish a competitive market economy. In this regard, after the enlargement, it is quite likely that those countries may face further challenges in addition to the serious macroeconomic difficulties and structural imbalances of varying degrees that they experienced in the 1990s. Of course, its real impact, direction and level will vary from one new member to another because they have different levels of development. Additionally, their economies still suffer structural problems and inadequately functioning institutional infrastructure.

Furthermore, as compared to the earlier enlargement processes, this new one is quite challenging for the current members of the Union. Newcomers with a combined population of about 168 million represent almost 45 percent of the present EU population. The digestion of such a huge population of relatively low-income countries will certainly be difficult.

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
Slovakia	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: http://www.europa.eu.int/comm/enlargement.

On the other hand, Europe Agreements envisage financial assistance by the EU to help finance the economic and social reforms in the CEECs. In this respect, the PHARE Programme (Poland and Hungary Assistance for Economic Restructuring Programme) has been instrumental in preparing the CEECs for EU membership. As its name indicates, the aid package was initially intended for Poland and Hungary but then extended to include all the CEECs. It aimed to help them restructure their economies and facilitate the process of social and economic change with a view to making their integration with Europe smoother.

In this regard, the European Commission is responsible for granting aid and providing financial assistance to those countries in order to prepare them for joining the Union. Within the context of pre-accession strategy, the PHARE Programme has recently been supplemented by two new financial instruments, *Pre-Accession Instrument for Structural Policies* (ISPA)[2] and *Special Accession Programme for Agriculture and Rural Development* (SAPARD)[3]. ISPA provides financial support to investments in transport and environmental protection while SAPARD channels funds to agricultural reform and rural development projects.

Between 1990 and 1999, the EU committed 6,899 million euros within the framework of the PHARE programme. Beginning with the year 2000, the PHARE programme is to provide the CEECs with 1,577 million euros including the funds under the Cross Border Cooperation (CBC) Programme, the ISPA with 1,040 million euros, and SAPARD with 520 million euros per year (Table 3).

Furthermore, those countries have the responsibility of 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-

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[2] It was launched by the EU in 1999.

[3] It came into effect on 1 January 2001, and is budgeted until the end of 2006. However, candidate countries may only benefit from SAPARD between the year 2000 and the time they join the Union.

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.

TABLE 3: Indicative Annual Allocations Per Country for PHARE*, SAPARD and ISPA Starting from 2000

	PHARE	**SAPARD**	**ISPA**		**Total Indicative Annual Allocation**		**Average Allocation from PHARE**
	EUR million	EUR million	EUR million		EUR million		EUR million
			Minim.	Maxim.	Minim.	Maxim.	
Bulgaria	100	52.1	83.2	124.8	235.3	276.9	83
Czech Rep.	79	22.1	57.2	83.2	158.3	184.3	69
Estonia	24	12.1	20.8	36.4	56.9	72.5	24
Hungary	96	38.1	72.8	104	206.9	238.1	96
Latvia	30	21.8	36.4	57.2	88.2	109	30
Lithuania	42	29.8	41.6	62.4	113.4	134.2	42
Poland	398	168.7	312	384.8	878.7	951.5	203
Romania	242	150.6	208	270.4	600.6	663	110
Slovakia	49	18.3	36.4	57.2	103.7	124.5	48
Slovenia	25	6.3	10.4	20.8	41.7	52.1	25
Total	1085	520	1040		2645		730
Total inc. CBC et al	**1577**						

Source: http://europa.eu.int/comm/commissioners/barnier/document/eston_en.pdf, p.6.
* Includes the Cross Border Cooperation Programme.

Agreements had economic, scientific and technical dimensions through which the Union established links with the CEECs to help support their internal structural changes and integrate them more closely into the international trading system. The Agreements also had a political dimension, providing for dialogue between partners on bilateral and global issues within the Association Council.

The European Investment Bank (EIB) is responsible for providing financial assistance to the newly acceding countries. The EIB loans signed in 2002 amounted to 1.6 billion euros of which 1 billion euros were disbursed during the same year. One-third of the loans signed benefitted the private sector. As for the public sector, transport and energy, often with an intra-regional interest, as well as health and education were the main recipients (EU, 2003b. p.5).

Since the beginning of the 1990s, liberalisation of bilateral trade between the CEECs and the current EU members has increased commercial relations. In this respect, the Europe Agreements played a significant role in enhancing the role of the EU as the most important trade partner of the CEECs. The Enlargement will further reinforce these developments and is expected to reshape, more significantly, the direction of trade in those countries in the future.

CEECs have made significant progress in privatisation. Thus, they were able to attract foreign capital in recent years. Furthermore, as they make more progress on economic reforms to liberalise their markets, foreign direct investment is expected to increase in the region which will have a positive effect on its economic growth. Furthermore, after the enlargement, the CEECs will be in a better position to attract private-sector investments. Therefore, the other countries in the nearby regions, including the OIC countries, will find themselves in an increasingly competitive environment for such capital.

Additionally, the EU enlargement will result in the redistribution of structural funds in favour of its new members (Tables B3 and B4, Annex B). This may further increase the competitiveness of those members and have a positive impact on reducing unemployment in the CEECs, which is currently higher as compared to the current members of the EU.

On the other hand, if increased competitiveness in the CEECs due to low wage cost results in a geographical shift in the operations of high-technology EU enterprises, this may bring about a leap in the technological base of those countries. Such interactions will accelerate their economic growth and technological development.

2.1. EU Enlargement and Turkey

Turkey and the EEC concluded an Association Agreement (Ankara Agreement) on 12 September 1963. The Agreement came into force on 1 December 1964 and aimed at integrating Turkey into the EEC through the establishment of a customs union between them. On 6 March 1995, Turkey signed an agreement to create a customs union with the EU. This constituted a milestone in bilateral relations and was an important phase that would help Turkey achieve EU membership. Turkey became the only country that established a customs union with the EU without becoming a full member.

Upon the coming into force of the Customs Union on January 1996, Turkey eliminated all duties and equivalent charges on imports of industrial goods from members of the EU. Furthermore, it harmonised its tariffs and equivalent charges on the imports of industrial goods from "third countries" with the Common External Tariff of the EU, and has progressively adopted EU commercial policy and preferential tariff policies within the last 5 years. For some specifically identified "sensitive" products, Turkey maintained rates of protection above those specified in the Common Customs Tariff for imports originating in third countries for up to 5 years. These products included mainly ceramics, motor vehicles and footwear.

As a result, Turkey's weighted rates of protection for imports of industrial products fell from 5.9 to zero percent for products originating in the EU and European Free Trade Association (EFTA) countries, and from 10.8 to 6 percent for products originating in third countries. The latter rates will drop further to 3.5 percent in line with the fulfilment of the EU's commitment under the World Trade Organisation (WTO) Agreement. Although agricultural products are excluded from the Treaty, Turkey is progressively adopting many aspects of the Common Agricultural Policy (CAP). Agricultural products will be included in the Customs Union following Turkey's full adaptation to the EU's CAP. The EU will take into account Turkish agricultural interests when developing its agricultural policy. Progressive improvement of the preferential arrangements for trade in agricultural products on a mutually advantageous basis is also envisaged.

At the Luxembourg European Council in 1997, all applicants except Turkey, were declared candidates. This development caused a major strain in EU-Turkish relations. However, in 1999, Turkey was declared a candidate at the Helsinki European Council.

As foreseen in the Helsinki European Council conclusions, the EU Commission prepared an Accession Partnership for Turkey which was adopted on 8 March 2001. Following its approval by the EU, Turkey announced its own National Programme for the Adoption of the EU's '*acquis communautaire'* on 19 March 2001 and submitted it to the EU Commission on 26 March of the same year.

On the other hand, the Turkey-EU Association Council met in Luxembourg on 11 April 2000. Eight sub-committees were established to carry out an analytical examination of the level of harmonisation of the Turkish legislation with the *'acquis communautaire'*. Since then, the Turkey-EU Association Council has regularly met to review the progress achieved within the framework of Turkey's pre-accession strategy and analyse and develop Turkey's alignment with the Community's laws and standards.

The subsequent European Council Sessions, in particular the Laeken (14-15 December 2001) and the Seville (21-22 June 2002) sessions, reiterated the Helsinki decisions on Turkey's candidacy and strengthened the prospects of creating better relations between the EU and Turkey.

On 9 October 2002, the European Commission announced its Annual Progress Report on Turkey and its Strategy Paper which included a number of recommendations concerning the next stage of Turkey's candidacy. The Progress Report on Turkey concluded that further progress was needed in the implementation process, while the Strategy Paper recommended the revision of the Accession Partnership, the deepening of the Customs Union, the intensification of the legislative scrutiny process and the increasing of the pre-accession financial assistance. Both texts did not fully meet Turkey's expectations.

The Copenhagen European Council of 12-13 December 2002 took important decisions concerning the EU's enlargement process. It agreed that ten candidate countries[4] become EU members as of 1 May 2004. Moreover, Bulgaria and Romania were set to join the Union in 2007. However, no definite date was announced for Turkey, who had applied for full membership in 1987. Instead, the fulfilment of the Copenhagen political criteria was again put forward as a condition of starting accession negotiations[5].

[4] Hungary, Poland, the Czech Republic, Estonia, Latvia, Lithuania, Malta, Cyprus, Slovenia and Slovakia.

[5] "If the European Council in December 2004, on the basis of a report and a recommendation from the Commission, decides that Turkey has fulfilled the Copenhagen political criteria, the EU will open accession negotiations with Turkey without delay."

Turkey was expecting to start accession talks with the EU in early 2003. Thus, the decision taken at the Copenhagen European Council was somehow disappointing. Nevertheless, determined to join the EU at the earliest possible time, Turkey continued to adopt reforms in line with the Copenhagen criteria, aiming to complete the reform process by the end of 2003. This will enable the EU to monitor the implementation of those reforms so that the European Council would, in December 2004, initiate the accession negotiations without delay.

2.2. Relations between the EU and OIC Countries in the Mediterranean

"The South and East Mediterranean and the Middle East are areas of vital strategic importance to the European Union and were identified by both the EU Council and the European Commission as **key external relations priority for the EU"**[6].

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, known as the Euro-Mediterranean Partnership or the Barcelona Process, includes the 15 Member States of the EU[7] and 12 Mediterranean partner countries[8] (EU, 2000, p.1). The Euro-Mediterranean Partnership, or the Barcelona Process, is a regional framework that aims to bring concerned countries together at the political and technical levels to promote their common interests. In this respect, the Barcelona Process builds on various Mediterranean policies developed by the EU since the 1960s. The Barcelona Declaration expresses the three main goals of the partners as follows:

- To establish a common Euro-Mediterranean area of peace and stability based on fundamental principles including respect for human rights and democracy (political and security partnership),
- To create an area of shared prosperity through the progressive establishment of a free trade area (FTA) between the EU and its

[6] http://europa.eu.int/comm/external_relations/med_mideast/intro/index.htm.
[7] Austria, Belgium, Denmark, Finland, France, Germany, Greece, Holland, Italy, Ireland, Luxembourg, Spain, Sweden, Portugal and the UK.
[8] Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Palestine, Malta, Morocco, Syria, Tunisia and Turkey.

Partners and among the Mediterranean Partners themselves, accompanied by substantial EU financial support for economic transition in the Partners and for the social and economic consequences of this reform process (economic and financial partnership), and

- To develop human resources, promote understanding between cultures and rapprochement of the peoples in the Euro-Mediterranean region as well as to develop free and flourishing civil societies (social, cultural and human partnership)[9].

An essential feature of the implementation of the Euro-Mediterranean Partnership has been the negotiation of the Euro-Mediterranean Association Agreements between the EU and Mediterranean partners, which replace the Cooperation Agreements dating back to the 1970s. Association Agreements, like the Europe Agreements signed between the EU and CEECs, cover a large variety of Common Foreign and Security Policies (CFSP), and economic, social, cultural and financial cooperation themes. The provisions of the Association Agreements governing bilateral relations vary from one partner to another but have certain aspects in common. These are[10]:

- Political dialogue;
- Respect for human rights and democracy;
- Establishment of WTO-compatible free trade over a transitional period of up to 12 years;
- Provisions relating to intellectual property, services, public procurement, competition rules, state aid and monopolies;
- Economic cooperation in a wide range of sectors;
- Cooperation relating to social affairs and migration including re-admission of illegal immigrants; and

[9] Barcelona Declaration, viewed on 20 August 2003 at http://europa.eu.int/comm/external_relations/euromed/index.htm.
[10] Euro-Mediterranean Partnership: Association Agreements, viewed on 20 August 2003 at http://europa.eu.int/comm/external_relations/euromed/med_ass_agreements.htm.

- Cultural cooperation.

The Euro-Mediterranean FTA foresees free trade in manufactured goods and the progressive liberalisation of trade in agricultural products. The Euro-Mediterranean Association Agreements are a step towards the creation of the FTA which will be made possible through the full implementation of the Partnership in line with the Association Agreements (Table 4).

In line with the decision taken at the Barcelona Conference, the Ministers of Foreign Affairs meet periodically in order to monitor the application of the Barcelona Declaration and define actions to achieve the objectives of the Partnership.

The last of such meetings, namely the Mid-term Euro-Mediterranean Foreign Minister's Meeting, was held in Crete, Greece, on 26-27 May 2003. The Ministers from the acceding countries were also invited to the Meeting which meant that the membership of the Mediterranean Partnership grew from 27 to 35. This Meeting reviewed the progress in the Partnership, particularly in the implementation of the Valencia Action Plan, and discussed its future development, notably in the light of the future enlargement of the Union (EU, 2003b, p.1). Agreed unanimously by the participants at the meeting in Valencia, Spain, on 22-23 April 2002, the Valencia Action Plan contains a series of activities to reinforce all areas of the Partnership. Moreover, the Ministers therein underlined, inter alia, the importance of the objective of creating a Euro-Mediterranean Free Trade Area by the target date of 2010[11].

The Meeting also discussed the Commission's proposal on the establishment of a new neighbourhood policy as set out in its Communication on 'Wider Europe–Neighbourhood'. They agreed that the enlargement of the Union would offer new opportunities for partnership and cooperation with the Mediterranean neighbours. Furthermore, they agreed to reinforce the Barcelona Process and develop closer co-operation based on mutual recognition of common interests.

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[11] Valencia Action Plan, http://europa.eu.int/comm/external_relations/euromed/conf/val/action.pdf.

TABLE 4: Progress of Negotiations on Euro-Mediterranean Association Agreements

	Concluded	Signed	Entered into Force
Algeria	December 2001	April 2002	
Egypt	June 1999	June 2001	
Jordan	April 1997	November 1997	May 2002
Lebanon	January 2002	April 2002	September 2002*
Morocco	November 1995	February 1996	March 2000
Palestine	December 1996	February 1997	July 1997*
Syria	Negotiations in Progress		
Tunisia	June 1995	July 1995	March 1998

Source: http://www.mic.org.mt/EUINFO/subjects/CFSP/COM(00)497.htm, p.16.
*An Interim Agreement has come into force.

During the meeting in Crete, the Ministers invited the Commission to explore how, within the existing Mediterranean Assistance (MEDA) framework, a more substantial involvement of the Mediterranean partners in the relevant EU programmes could be achieved. The MEDA programme is the principal financial instrument of the European Union for the implementation of the Euro-Mediterranean Partnership. It offers technical and financial support measures to accompany the reform of economic and social structures in the Mediterranean partner countries. It is based on a regulation adopted by the EU Council in 1996, known as the “MEDA I”, which covers the period 1995-1999. It was amended in 2000 as the “MEDA II” for the 2000-2006 period. Meanwhile, EU aid increased from 3.4 billion euros under MEDA I to 5.4 billion euros under MEDA II.

The enlargement of the EU may affect some EU regional policies, including that on the Mediterranean region. The Association process remains at the core of the Mediterranean Partnership. Thus, particularly the completion of the ratification process of the Agreements not yet in force with Algeria, Egypt and Lebanon may serve to further strengthen those countries’ relations with the Union (Table 3). It may also help them keep pace with the developments that will take place within the EU in the future.

2.3. Relations Between the EU and the Gulf Cooperation Council (GCC)

On 26 May 1981, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates established the GCC by signing an agreement to coordinate economic, political, cultural and security policies among themselves (MEDEA, 2003, p.1).

In 1989, the GCC and the European Union concluded a Cooperation Agreement to facilitate economic and commercial relations between both sides. Working groups were established in the fields of industrial cooperation, energy and the environment. The Agreement also foresees holding talks on a Free Trade Agreement between the EC and the GCC. Meeting regularly, the GCC and EU Foreign Ministers review the relations among them with a view to improving their economic relations.

On the other hand, at its 22nd Session, held in Muscat, Oman, on 30 and 31 December 2001, the GCC Supreme Council, after studying the measures taken for the establishment of a customs union, decided to bring forward its launching to 1 January 2003 instead of January 2005. It further decided to lower the Common Customs Tariff to 5 per cent on all foreign goods imported from outside the Customs Union with some exceptions.

The GCC is the EU's sixth largest export market and the EU always has a surplus in the trade balance with the GCC. Crude oil represents almost two thirds of EU imports from the GCC. GCC exports to the EU amounted to \$17.6 billion in 2001 (Table A2, Annex A), accounting for 10.9 percent of the GCC's total exports. GCC imports from the EU amounted to \$30.0 billion in 2001 (Table A3, Annex A), accounting for 28.9 percent of the GCCs total imports.

The 12th Session of the Joint Council, held in Granada in February 2002, agreed to hold negotiation rounds on the FTA at an intensive pace. The Joint Council also agreed that negotiations should proceed steadily to their conclusion by removing obstacles not yet overcome and covering all remaining sectors, including non-trade elements. Five negotiating rounds took place during 2002 and another one on 4-5 March 2003, following the Joint Council meeting on 3 March of the same year.

The 13th Session of the Joint Council and Ministerial Meeting between the EU and the GCC was held in Doha, Qatar, on 3 March 2003. The Joint Council reiterated its view that trade, investment and cooperation constituted the foundations on which EU-GCC economic relations would be developed and improved. It also noted the progress achieved in the implementation of the Cooperation Agreement and in the negotiations on the FTA (EU, 2003a, p.1-2).

3. INTRODUCTION OF THE EURO

3.1. Introduction of the Euro

The introduction of a single European currency, the euro, has occurred as a result of the EU Member States' determined efforts to establish an Economic and Monetary Union (EMU). Minting or issuing money has always been seen as one of the very basic elements of national sovereignty. Additionally, the design and implementation of monetary policy through adjusting the volume of money supply in the markets and banking system is again one of the most fundamental economic policies. Therefore, the process of establishing a Monetary Union and launching a single currency to replace national currencies could not be an easy one. Indeed, it was long and full of difficulties. The EU members made a systematic and structured effort, and manifested, from the beginning, political will and determination to achieve this goal. This ambition was realised through the stages of a long and difficult process following the important decisions taken by the EU Member States.

With the decision of the European Council in Bremen in July 1978, the European Monetary System (EMS) was established and the European Currency Unit (ECU) was created as a unit of account. Eight member states, excluding the United Kingdom, participated in the EMS. The ECU was defined in March 1979 as a basket of the currencies of the participating countries. The exchange parities between the currencies were fixed and the margin of fluctuation was limited to 2.25 percent.

After more than a decade, at the Maastricht Summit of 9-10 December 1991, the Member States agreed to the Treaty of the European Union (EU) which aimed to develop the European Community into an economic and monetary union and introduce a single European currency by 1999 at the latest. Thus, under the Maastricht Treaty, the EU Member States explicitly declared their intention to adopt a single currency. The Maastricht Treaty laid down a set of strict criteria for joining the Union that entail low inflation, low long-term interest rates, stable currencies, low budget deficit and no excessive public debt. In accordance with the decisions of the Summit, the Single Market was realised and capital movements were liberalised within the whole region at the beginning of 1993. Although the process started earlier, the entry into force of the Treaty on European Union on 1 November 1993 marked the first stage of preparations for EMU.

As a next step, the European Monetary Institute (EMI) was established in Frankfurt on 1 January 1994, which marked the second stage of EMU. The EMI was a transitional body responsible for strengthening the coordination of the monetary policies of Member States and cooperation between central banks, preparations for the third and final stage of the EMU, the establishment of the European System of Central Banks (ESCB), the conduct of the single monetary policy and the introduction of the single currency. To this end, the EMI provided a forum for consultation and the exchange of views and information on policy issues and specified the regulatory, organisational and logistical framework necessary for the ESCB to perform its tasks in the third stage of EMU.

On 15-16 December 1995, the Madrid European Council adopted the name ‘euro’ for the European single currency. The changeover to the single currency was decided by the Council to be on 1 January 1999 and the completion of the process was scheduled for 2002. In June 1997, the Council adopted the EMI report which formed the basis for a Resolution by the European Council on the principles and fundamental elements of the new exchange rate mechanism (ERM II). On 2 May 1998, the Council unanimously decided that 11 Member States[12] had fulfilled the conditions necessary for the adoption of the single currency on 1 January 1999. Those countries were, therefore, to participate in the third and final stage of the EMU. The Heads of State or Government also reached a political understanding on the persons to be recommended for appointment as members of the Executive Board of the European Central Bank (ECB). With the establishment of the ECB on 1 June 1998, the EMI had completed its tasks.

On 1 January 1999, the euro was launched in the 11 countries. On the same date, the conversion rates were fixed irreversibly and irrevocably between the currencies of the participating countries both amongst themselves and against the Euro. Euro area countries began to

[12] Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

implement a common monetary policy, the euro was introduced as a legal currency and the 11 currencies of the participating Member States became subdivisions of the euro. Although Denmark, Sweden and the UK chose not to join, and Greece failed to meet the criteria to join the system on that date, this was an important step toward further integration in the EU. Based on the decision of the Economic and Financial Committee (ECOFIN) of 19 June 2000, Greece also gained admission to the EMU as of 1 January 2001.

During the transition period between 1 January 1999 and 1 January 2002, the Euro served as bank money. That is, it was used in bank operations and foreign exchange transactions, but not put into circulation in the form of bank notes and coins.

TABLE 5: Dates of the Changeover in Euro Banknotes and Coins

Germany	German Mark	31 December 2001
The Netherlands	Dutch Guilder	28 January 2002
Ireland	Irish Punt	9 February 2002
France	French Franc	17 February 2002
Austria	Austrian Schilling	28 February 2002
Belgium	Belgian Franc	28 February 2002
Finland	Finnish Markka	28 February 2002
Greece	Greek Drachma	28 February 2002
Italy	Italian Lira	28 February 2002
Luxembourg	Luxembourg Franc	28 February 2002
Portugal	Portuguese Escudo	28 February 2002
Spain	Spanish Peseta	28 February 2002

Source: ‘Introducing the Euro’, Available at http://oanda.com/site/euro.shml

Upon completion of this transition period on 1 January 2002, the euro banknotes and coins were put into circulation in 12 Member States of the EU and by the end of February 2002, the dual circulation period ended as national banknotes and coins were withdrawn from circulation in the euro zone (Table 5).

3.2. The Euro as an International Currency

Starting from 1 January 2002, the euro started to serve as full-fledged money. In other words, it assumed all the functions that might be expected from a currency. It started to be used as a measure of wealth and a store of value for saving, investment and reserve purposes by the central banks and monetary authorities; as a medium of exchange in domestic and international transactions; and as a unit of account for pricing or quoting the value of services and goods.

The ECB administration declared that they neither foster nor hinder the international use of the euro. Therefore, internationalisation of the euro was left directly to the decisions of private and official economic actors around the globe. On the other hand, its stability in international currency markets made an impact on investment decisions at the international level. However, from the beginning, the euro assumed various functions on the international scale. The most important of these functions was its role as an international investment and financing currency.

International capital markets are heavily dominated by the US dollar. The same prevails in the case of the OIC countries. The long-term external debts of those countries are heavily concentrated in the US dollar (Table A1, Annex A). In 2001, except for Cameroon, Gabon, Nigeria and Pakistan, the share of US dollar in the total debt stock of member countries was more than that of the euro. It reached 91.6 percent in Tajikistan. In 27 out of 46 OIC member countries for which the foreign debt data is reported, the share of the US dollar amounts to more than 50 percent. In 17 of them, this share is more than 60 percent.

Such a high concentration of the US dollar in the long-term foreign debts of those countries cannot be considered an encouraging situation. First, the appreciation of the US dollar with respect to the other major currencies and the domestic currency of the concerned countries means an increase in the already heavy burden of the foreign debts on their economies. Second, such a situation pushes the countries to keep more and more US dollars in their foreign exchange reserves, conduct their foreign trade mostly in the US dollar and link their economies mostly to the US economy. When the US economy grows much and, consequently, the US dollar appreciates, their foreign debt position deteriorates. On the other hand, with such strong links between both economies, if the US economy goes into trouble and falls into a recession, then the countries exporting to the US will be affected adversely and their exports will decrease, resulting in a deterioration in their balance of payments and an increase in their need for borrowing. Thus, in either case, such a heavy dependence on a single partner may harm OIC economies. In this respect, the introduction of the euro into international capital markets offers to developing as well as OIC countries better prospects by enabling them to diversify their borrowing policies.

TABLE 6: Share of Currencies in Official Holdings of Foreign Exchange, end of year[1]

Years	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
All Countries										
US dollar	55.3	56.7	56.6	57.0	60.3	62.4	65.9	68.4	68.1	68.3
J. yen	7.6	7.7	7.9	6.8	6.0	5.2	5.4	5.5	5.2	4.9
P. sterling	3.1	3.0	3.3	3.2	3.4	3.7	3.9	4.0	3.9	4.0
Sw. franc	1.0	1.1	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Euro	-	-	-	-	-	-	-	12.7[2]	13.0[2]	13.0[2]
D. mark	13.3	13.7	14.2	13.7	13.1	12.2	12.2	-	-	-
Fr. Franc	2.7	2.3	2.4	2.3	1.9	1.4	1.4	-	-	-
Nl. Guilder	0.7	0.7	0.5	0.4	0.3	0.4	0.4	-	-	-
ECUs[3]	9.7	8.2	7.7	6.8	5.9	5.0	0.8	-	-	-
Other[4]	6.5	6.6	6.4	8.9	8.3	8.4	9.3	8.8	9.1	9.0
Industrial Countries										
US dollar	48.8	50.2	50.8	51.8	56.1	57.9	66.7	73.5	73.3	74.5
J. yen	7.6	7.8	8.2	6.6	5.6	5.8	6.6	6.5	6.3	5.5
P. sterling	2.4	2.2	2.3	2.1	2.0	1.9	2.2	2.3	2.0	1.8
Sw. franc	0.4	0.3	0.2	0.1	0.1	0.1	0.2	0.1	0.2	0.4
Euro	-	-	-	-	-	-	-	10.7[2]	10.4[2]	9.7[2]
D. mark	15.1	16.4	16.3	16.4	15.6	15.9	13.4	-	-	-
Fr. Franc	2.9	2.6	2.4	2.3	1.7	0.9	1.3	-	-	-
Nl. Guilder	0.4	0.4	0.3	0.2	0.2	0.2	0.2	-	-	-
ECUs[3]	16.7	15.2	14.6	13.4	12.0	10.9	1.9	-	-	-
Other[4]	5.7	4.8	5.0	7.0	6.7	6.4	7.4	6.9	7.6	8.1
Developing Countries										
US dollar	64.5	64.3	63.1	62.4	64.3	66.2	65.3	64.6	64.2	64.1
J. yen	7.7	7.5	7.6	7.0	6.5	4.7	4.5	4.7	4.4	4.5
P. sterling	4.0	4.0	4.4	4.3	4.8	5.1	5.2	5.3	5.2	5.5
Sw. franc	1.9	2.0	1.7	1.5	1.4	1.1	1.1	1.1	1.0	0.9
Euro	-	-	-	-	-	-	-	14.2	15.0	15.3
D. mark	10.8	10.5	11.9	11.0	10.6	10.3	11.3	-	-	-
Fr. Franc	2.3	2.0	2.4	2.3	2.0	1.8	1.5	-	-	-
Nl. Guilder	1.0	1.0	0.8	0.6	0.5	0.6	0.5	-	-	-
ECUs[3]	-	-	-	-	-	-	-	-	-	-
Other[5]	7.7	8.7	8.0	10.9	9.9	10.2	10.8	10.2	10.1	9.6

Source: IMF (2000b), *Annual Report 2002*, p.97.

Note: Components may not sum to totals because of rounding.

1 Only IMF member countries that report their official holdings of foreign exchange are included in this table.

2 Not comparable with the combined share of euro legacy currencies in previous years because it excludes the euros received by euro area members when their previous holdings of other euro area members' legacy currencies were converted into euros on 1 January 1999.

3 In the calculation of the currency shares, the ecu is treated as a separate currency. Ecu reserves held by the monetary authorities existed in the form of claims on both the private sector and EMI, which issued official ecus to EU central banks through revolving swaps against the contribution of 20 percent of their gross gold holdings and US dollar reserves. On 31 December 1998, the official ecus were unwound into gold and US dollars. Hence, the share of ecus at the end of 1998 was sharply lower than a year earlier. The remaining ecu holdings reported for 1998 consisted of ecus issued by the private sector, usually in the form of ecu deposits and bonds. On 1 January 1999, these holdings were automatically converted into euros.

4 The residual is equal to the difference between total foreign exchange reserves of IMF member countries and the sum of the reserves held in the currencies listed in the table.

5 The calculations here rely to a greater extent on IMF staff estimates than do those provided for the group of industrial countries.

The role of the euro in the economies of the OIC and developing countries increases as borrowing from the euro zone countries increases and as trade exchanges grow substantially with them. Actually, there are some indications that the role of the euro continues to increase. In particular, the share of the euro in international market instruments recorded a substantial increase in the period 1999-2000 (ECB, 2001). After the US dollar, the euro has already become the second most widely used reserve currency, accounting for 13 percent in 2001 while the dollar accounted for 68.3 percent (Table 6). However, considering that the US dollar accounted for 55.3 percent of the official holdings of foreign exchange in 1992, its increase to 68.3 percent in 2001 shows that its performance was still much better than the other currencies, including the euro, between both years. Nevertheless, the role played by the euro as an international investment and financing currency is expected to increase in the future.

Especially, the developing countries tend to keep a higher share of the euro in their official foreign exchange holdings as compared to industrial countries. They have increased the reserve share of the euro by 1.1 percentage point from 14.2 percent in 1999 to 15.3 percent in 2001. Meanwhile, the share of the US dollar in foreign exchange reserves decreased by 0.5 percentage point from 64.6 percent to 64.1 percent in the same period.

3.3. Recent Developments Regarding the Value of the Euro

When the euro was first launched on 1 January 1999, its nominal value was equal to 1.1785 US dollars. At the end of 1999, it deteriorated to 1.008 US dollars on the international currency markets, a fall by about 14.5 percent. At the end of November 2000, it reached a minimum of 0.856 US dollars, thereby representing a further drop by 15.1 percent against all the positive expectations at the beginning of its launching.

When the euro was introduced in 1999, the very strong performance of the US economy in 1999 compared to the stagnating economic growth in the EU caused investors to pour money into the US economy. In the said year, the US economy was operating at a state very close to full employment, with unemployment at a 30-year-low rate of 4.2 percent, a low inflation rate of 2.2 percent in the same year and a prolonged economic growth since the beginning of the 1990s. Consequently, the dollar appreciated against the major currencies, including the newly introduced “euro”. This fact may also constitute the other reason for this development. Psychologically, investors might not have confidence in such a newly issued currency.

However, the signs of weakening economic activity in the US, starting in late 2000 and deepening in 2001 against the slight recovery being observed in the EU countries in 2000, changed the expectations about the strength of the US dollar vis-à-vis the other major currencies and, in particular, the Euro. For this reason, the international value of the euro against the US dollar was stabilised in late 2000 and remained as such throughout 2001. In 2001, world economic growth was almost halved. Real GDP growth in the US fell from 3.8 percent in 2000 to 0.3 percent in 2001 (Table 7).

Consequently, investors commenced to cut back their dollar holdings. Additionally, the relatively high interest rate policy of the ECB as a precautionary measure against a probable rise in inflation led to investments in the EU markets and the euro, and capital outflows from the US markets. Therefore, the euro surged above its initial value. Furthermore, on 20 May 2003, the euro traded above 1.19 to the US dollar, a level it had never reached since its launch 4 years earlier. At the end of May 2003, the euro traded at a record level of 1.1933 to the US dollar. From October 2000 to May 2003, the US dollar lost about 40 percent of its value against the euro.

TABLE 7: Main Indicators in the Major Economies (%)

	Euro Area	**United States**	**Japan**
Real GDP Growth			
1999	2.8	4.1	0.2
2000	3.5	3.8	2.8
2001	1.4	0.3	0.4
2002	0.8	2.4	0.3
Consumer Prices			
1999	1.1	2.2	-0.3
2000	2.3	3.4	-0.9
2001	2.6	2.8	-0.7
2002	2.3	1.6	-0.9
Unemployment Rate			
1999	4.2	9.4	4.7
2000	4.0	8.4	4.7
2001	4.8	8.0	5.0
2002	5.8	8.3	5.4

Source: IMF, World Economic Outlook 2003.

On the other hand, the US dollar's slide against the Japanese yen was about 12 percent since January 2002. Because of the relative rise in the value of the euro, euro-zone producers, whose exports became more costly as compared to those of both their US and Asian competitors, came under pressure from these regions.

Moreover, a stronger euro is making euro-zone exports to the US more expensive and US exports cheaper in terms of the euro. In addition, a fall in demand for European goods is adversely affecting the European firms with significant exposure to the US market, as their dollar-denominated earnings account for less return in terms of the euro. Many are afraid that this could lead the European economy into a recession. Early signals of such a risk are already being felt in major EU economies such as Germany and France. Major European businesses have been hit by the strengthening of the euro and have criticised the ECB for not taking more measures to reverse this situation.

Indeed, while the US Federal Reserve cut its federal funds rate to 1.25 percent in November 2002, the ECB was reluctant to do the same in its borrowing cost which stood at 2.5 percent. However, on 5 June 2003, the ECB changed its policy and lowered interest rates amid signs that the economic outlook is weakening and inflation is receding. In the euro zone, consumer prices decreased from 2.6 percent in 2001 to 2.3 percent in 2002. If the recent move by the ECB generates some positive developments for the Union's economy and helps the value of the euro re-balance against other major currencies, an increase in the exports of the euro zone and an acceleration in the economic growth of the EU countries would be expected in the following years. If not, these expectations may easily turn negative.

On the other hand, on 25 June 2003 the US Federal Reserve also lowered the federal funds rate by a quarter percent to 1 percent with a view to helping the US economy recover from its present weakening state. This situation will cause the US dollar to become cheaper to stimulate production and demand for US exports. This move has already diminished the impact of the ECB's measure. However, high expectations about real GDP growth in the Union following the enlargement along with the diminishing trend of inflation in the euro zone might support the ECB's policy.

4. ECONOMIC IMPACT OF THE EU ENLARGEMENT ON THE OIC COUNTRIES

By the decision of the Copenhagen European Summit on 12-13 December 2002, 10 countries became EU members on 1 May 2004. The enlargement process will also include Bulgaria and Romania in 2007. In the meantime, Turkey may start accession negotiations if the EU decides, at the end of 2004, that Turkey has fulfilled the Copenhagen political criteria.

The enlargement of the EU, together with the establishment of the monetary union and the adoption of the single currency “euro”, will have an enormous impact on the global economy, and in particular on the neighbouring countries, including the OIC members. The EU is already a major economic actor in the world economy. With the completion of the enlargement process, it will become a much more important entity than ever. The main effects of the enlargement process will be felt through the changes in the direction of the foreign trade in goods and services, international migration, workers’ remittances, foreign direct investments (FDI) flows, international job division and other related economic policies, and increasing economic strength of the EU at the world level.

One basic impact will be the change in direction of the migration flows: migration from the new members towards the more developed EU members is likely to replace the masses from the Mediterranean neighbours and the African countries who are mostly OIC countries. Present levels of income and welfare differences between the present EU members and the newcomers are high enough to stimulate such a massive migration. On the one hand, this may increase unemployment among the workers who have already migrated to the EU countries from the neighbouring OIC countries, and on the other, it may decrease the volume of workers’ remittances being sent to their home countries and generate a further negative pressure on the employment levels in those countries. Furthermore, the combined effect of those factors will be the deterioration of income and welfare levels in those countries and a serious damage to their efforts to reduce poverty.

On the other hand, in order to reduce the socio-economic effects of the possibility of such a migration, the present members of the EU may also like to encourage investments in the new members. Furthermore, competitive wages and the EU funds being invested in the structural projects in the newly-acceding countries could constitute an advantageous economic environment to invest more in those countries. Thus, the EU funds, which could be invested in the neighbouring OIC countries, would be redirected towards the new members. These developments will most likely boost the competitiveness of those countries and result in a strong leap in their economic growth and development.

Against such challenges, the enlargement will also generate a set of opportunities for the neighbouring Mediterranean and African OIC countries. Foremost among these is the opening of the domestic markets of the newly-acceding countries through the Barcelona Process.

In this respect, at the Mid-term Euro-Mediterranean Foreign Ministers Meeting in Crete on 26-27 May 2003, ministers from 35 countries, including the acceding ones, agreed on the policy guidelines to reinforce the Barcelona Process and develop closer cooperation based on the mutual recognition of common interests. The EU intends to promote cooperation with the Mediterranean partners, bilaterally through the Association Agreements and multilaterally through the Euro-Mediterranean Committee and Senior Officials Meeting. At the first stage, this could be achieved through the more substantial involvement of the Mediterranean partners in the relevant EU programmes within the existing MEDA framework.

The new neighbourhood policy, as set out in the European Commission's Communication on 'Wider Europe–Neighbourhood', will encourage regulatory reform in neighbouring OIC countries, especially in the services sector, which can give a strong boost to their economic growth and competitiveness. The economic impact of the EU enlargement on the OIC partners should be viewed from a broader perspective involving not only direct trade, investment and other macroeconomic effects but also further economic policy reforms that constitute the driving force behind economic growth performance (EU, 2003b, p.7).

On the other hand, the new members will harmonise their tariffs with the Common External Tariff (CET) of the EU. Since the current tariffs applied in the CEECs are usually higher than the CET, they will be lowered after the enlargement. In this case, the OIC countries will be better able to enter those markets.

However, after the enlargement, a single set of trade rules, customs tariffs and customs procedures will apply across the enlarged Union. Furthermore, the use of the single currency, euro, and the harmonisation of trade and banking regulations and standards will facilitate the free circulation of goods and services in the region. In this case, economic operators from other countries in the world, including the OIC members, could be obliged to comply with those sets of mechanisms, rules and procedures in their dealings with the newcomers.

Particularly, after the completion of the enlargement process, the EU may easily become a unilaterally rule-making organisation in global trade and investment relations and force other parties to obey its own rules and regulations.

Even today, European standards for the 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 those trade rules also mean an additional cost to their companies. Even if they manage to learn the EU trade legislation, they will not be able to produce their products according to those 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 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 those standards will not be let into the EU.

CONCLUSION

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.

Regional integration increases the efficiency and competitiveness of the companies and industries in the region. In doing so, it prepares and strengthens those 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 strengthen their productivity and competitiveness. They were prepared not only for European integration but also for international competition.

In addition to the putting into circulation of the single currency 'euro', the completion of the enlargement project will make the Union much more important than ever. Its impact will be felt in various fields like international trade in goods and services, international investment flows, international migration, international job division, etc.

Furthermore, the EU has also generated the most complicated and detailed trade standards, rules, procedures and practices. Such a complex set of technical standards, health and quality regulations, antidumping actions and rules of origin elaborated in thousands of pages long of EU legislation which should be complied with for exporting to the Union, constitute the most effective barrier to the exports of the developing and OIC countries to the EU. Of course, all those rules and procedures, technical standards, sanitary and phytosanitary measures and others are being applied to all companies. However, since the companies of the EU countries and those of other developed countries, particularly the multinational corporations, have already adjusted themselves to such conditions, the EU legislation becomes an impediment to the companies of the developing, including OIC, countries. Those companies, in particular the SMEs, are not very powerful 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 follow up its amendments. For this reason, the OIC institutions operating in the area of trade, together with export promotion organisations, may establish the necessary mechanisms to inform the member countries on a product basis of the present EU legislation and possible changes to be done in the future concerning important export items of member countries.

The OIC countries need to consider measures to create the necessary institutional infrastructure to provide consultation on those trade rules and procedures and prepare their companies to comply with them. Moreover, they also need to take the necessary measures, on a step by step basis, to harmonise their economic and commercial policies in order to benefit from the international trade rules and procedures. The OIC also needs to take measures to encourage trade exchanges among the member countries through implementing the relevant resolutions of the Islamic Conferences and the COMCEC.

Furthermore, improvements in the efficiency and competitiveness of the companies, especially the export industries and services, are very important prerequisites to increase the share of a country in the world economy or at least keep that share at the same level. In this respect, the OIC countries need to improve their economic infrastructures, increase the value-added and quality of their products, diversify their productive base and provide a suitable environment to attract foreign direct investments.

The experience of the EU in increasing commercial, economic and monetary integration amongst its members provides a model for the OIC countries. They may further strengthen regional and sub-regional economic groupings and activate the existing economic integration projects with a view to increasing cooperation in the fields of trade, investment, finance and technology among them which could lead to the establishment of an Islamic Common Market or any other suitable form of economic integration among themselves. In this regard, accelerating the implementation of the OIC Plan of Action is of foremost importance in order to create an effective economic and commercial cooperation among the OIC Member States.

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ANNEX A

TABLE A1: CURRENCY COMPOSITION OF LONG-TERM DEBT, 2001 (percent)

	Japanese Yen	US Dollars	Euro	Other Currencies
Euro-Med				
Albania	2.6	73.6	20.2	2.7
Algeria	12.6	46.6	29.8	7
Egypt	11.3	43.6	29.1	6.4
Jordan	21.6	30.3	17.6	13.9
Lebanon	0.1	79.1	12.9	5.1
Morocco	3.9	38.7	32.7	14.2
Syria	2.7	86.7	2.2	7.6
Tunisia	23.9	27.6	25	17.3
Turkey	8.6	63.5	26.1	0.2
SSA				
Benin	1.9	61.7	9	12.3
Burkina Faso	0	60.8	5.3	14.5
Cameroon	0.6	0.7	57.2	4.8
Chad	0	59.6	4.9	13.9
Comoros	0	34.5	14.3	43
Côte d'Ivoire	1.3	54.7	33	3.9
Djibouti	0	19.2	18.6	32.5
Gabon	0.7	32.6	45.8	10.2
Gambia	0	52.2	6.2	16.6
Guinea	2.2	56.2	8.5	23.4
Guinea Bissau	0	43.8	10.4	5.9
Mali	2.5	36.3	14.2	25.9
Mauritania	3.3	43.8	13.8	35.1
Mozambique	0	74.1	4.8	9.4
Niger	1.6	49.5	25.5	19.6
Nigeria	2	1.9	86.7	3.2
Senegal	3	49.6	17.6	17.7
Sierra Leone	5.9	50.6	15.1	6.1
Somalia	2.6	52.3	4.4	32.1
Sudan	2.6	53.1	7.4	15.7
Togo	5.4	52.9	15.9	8.6
Uganda	1.4	66.5	1.8	11.9
Others				
Azerbaijan	25.7	61.8	4.4	3
Bangladesh	18.3	47.7	0.5	2.5
Guyana	0	66	4	2
Indonesia	28.1	57.1	7.6	0.8
Iran	7.5	61.5	23.8	0.7
Kazakhstan	12.7	63.9	3.5	0
Kyrgyz Rep.	13.6	69.8	2.2	3.6
Malaysia	22.6	71.1	0.3	0.1
Maldives	0	53.7	4.2	16.8
Oman	4.6	76.2	0	19.2
Pakistan	13.7	12.4	41.5	3.8
Tajikistan	0	91.6	5.8	2.6
Turkmenistan	-	-	-	-
Uzbekistan	21.4	56.7	16	1.3
Yemen	2.7	70.1	0.5	20.9

Source: World Bank, Global Development Finance 2002.

TABLE A2: EXPORTS OF OIC COUNTRIES TO THE EU

	Total Exports (Million US$)		Exports to EU (Million US $)		Share of Exports to EU (%)	
	1998	**2001**	**1998**	**2001**	**1998**	**2001**
Albania	206	318	191	300	92.7	94.3
Algeria	10956	19539	7500	14510	68.5	74.3
Egypt	3159	4140	2560	3010	81.0	72.7
Jordan	1208	1575	180	140	14.9	8.9
Lebanon	716	921	180	280	25.1	30.4
Libya	6032	11249	4939	10180	81.9	90.5
Morocco	4634	7117	2717	5860	58.6	82.3
Syria	2890	5469	1660	3690	57.4	67.5
Tunisia	5748	6609	5040	5620	87.7	85.0
Turkey	26301	30262	15170	18920	57.7	62.5
Mediterranean Area	**61850**	**87199**	**40137**	**62510**	**64.9**	**71.7**
Bahrain	2750	8668	340	450	12.4	5.2
Kuwait	8915	18654	1380	2060	15.5	11.0
Oman	5375	10299	240	260	4.5	2.5
Qatar	4947	12898	130	610	2.6	4.7
Saudi Arabia	38727	70453	8580	11640	22.2	16.5
UAE	25806	40113	1760	2570	6.8	6.4
GCC	**86520**	**161085**	**12430**	**17590**	**14.4**	**10.9**
Benin	232	182	60	60	25.9	33.0
Burkina Faso	292	162	90	60	30.8	37.0
Cameroon	1671	1749	1312	1650	78.5	94.3
Chad	120	83	83	48	69.2	57.8
Côte d'Ivoire	4395	3642	2760	1980	62.8	54.4
Gabon	2488	3683	560	1060	22.5	28.8
Gambia	29	27	23	18	79.3	66.7
Guinea	821	575	500	510	60.9	88.7
Guinea Bissau	102	140	11	4	10.8	2.9
Mali	292	146	110	40	37.7	27.4
Mauritania	495	361	350	340	70.7	94.2
Mozambique	245	808	130	440	53.1	54.5
Niger	206	154	170	110	82.5	71.4
Nigeria	11364	20604	3250	5800	28.6	28.1
Senegal	832	849	400	410	48.1	48.3
Sierra Leone	7	54	4	60	57.1	111.1
Somalia	128	88	12	3	9.4	3.4
Sudan	538	1768	200	240	37.2	13.6
Togo	413	220	50	60	12.1	27.3
Uganda	410	456	310	200	75.6	43.9
SSA	**25080**	**35751**	**10385**	**13093**	**41.4**	**36.6**
Azerbaijan	607	2314	60	990	9.9	42.8
Bangladesh	3822	5736	2290	2980	59.9	52.0
Brunei	1979	2209	310	60	15.7	2.7
Guyana	582	677	160	190	27.5	28.1
Indonesia	48843	64874	11160	9940	22.8	15.3
Iran	12884	26382	4520	5860	35.1	22.2
Iraq	4649	11087	2550	3060	54.9	27.6
Kazakhstan	5404	8647	1090	2620	20.2	30.3
Kyrgyz Rep.	513	477	210	100	40.9	21.0
Malaysia	73470	88199	13130	1424	17.9	1.6
Pakistan	8433	9207	2680	2570	31.8	27.9
Suriname	436	516	151	127	34.6	24.6
Tajikistan	597	267	100	60	16.8	22.5
Turkmenistan	506	176	140	140	27.7	79.5
Uzbekistan	2441	560	540	460	22.1	82.1
Yemen	1497	3518	100	80	6.7	2.3
Others	**166663**	**224846**	**39191**	**30661**	**23.5**	**13.6**
OIC Total	**340113**	**508881**	**102143**	**123854**	**30.0**	**24.3**

Source: IMF, Direction of Trade Statistics, yearbook 2002.

TABLE A3: IMPORTS OF OIC COUNTRIES FROM THE EU

	Total Imports		**Imports from EU**		**Share of Imports from EU**	
	1998	**2001**	**1998**	**2001**	**1998**	**2001**
Albania	795	1344	620	880	78.0	65.5
Algeria	9834	9086	5840	667	59.4	7.3
Egypt	16479	12720	8200	6450	49.8	50.7
Jordan	4011	5251	1250	1660	31.2	31.6
Lebanon	7060	6365	3170	2800	44.9	44.0
Libya	5600	4354	2910	2610	52.0	59.9
Morocco	8427	10978	6660	7060	79.0	64.3
Syria	3895	6352	1730	1870	44.4	29.4
Tunisia	8402	9570	6360	7190	75.7	75.1
Turkey	44731	41399	24090	21160	53.9	51.1
Mediterranean Area	**109234**	**107419**	**60830**	**52347**	**55.7**	**48.7**
Bahrain	2831	3682	850	830	30.0	22.5
Kuwait	8617	7856	2360	2330	27.4	29.7
Oman	5682	5825	1600	1250	28.2	21.5
Qatar	3717	4014	1490	1740	40.1	43.3
Saudi Arabia	30012	39507	13120	11570	43.7	29.3
UAE	24728	42884	9570	12270	38.7	28.6
GCC	**75587**	**103768**	**28990**	**29990**	**38.4**	**28.9**
Benin	639	1526	470	490	73.6	32.1
Burkina Faso	814	530	280	200	34.4	37.7
Cameroon	1495	1851	1030	1090	68.9	58.9
Chad	177	382	98	157	55.4	41.1
Côte d'Ivoire	2991	2546	1730	1200	57.8	47.1
Gabon	1118	1446	650	1040	58.1	71.9
Gambia	329	396	120	132	36.5	33.3
Guinea	775	477	360	320	46.5	67.1
Guinea Bissau	91	96	46	31	50.5	32.3
Mali	1222	1404	370	370	30.3	26.4
Mauritania	610	435	320	340	52.5	78.2
Mozambique	817	1463	180	180	22.0	12.3
Niger	362	324	170	180	47.0	55.6
Nigeria	7582	11484	3140	4380	41.4	38.1
Senegal	1537	2134	980	970	63.8	45.5
Sierra Leone	198	426	90	220	45.5	51.6
Somalia	246	355	18	24	7.3	6.8
Sudan	1609	1814	540	540	33.6	29.8
Togo	1088	355	280	300	25.7	84.5
Uganda	860	964	220	170	25.6	17.6
SSA	**24560**	**30408**	**11092**	**12334**	**45.2**	**40.6**
Azerbaijan	1076	1430	360	310	33.5	21.7
Bangladesh	7370	9011	630	760	8.5	8.4
Brunei	2353	373	690	150	29.3	40.2
Guyana	554	653	80	70	14.4	10.7
Indonesia	27337	38797	4580	3990	16.8	10.3
Iran	131158	18333	4890	5930	3.7	32.3
Iraq	1431	2694	560	1570	39.1	58.3
Kazakhstan	4257	6363	1430	1380	33.6	21.7
Kyrgyz Rep.	841	467	100	50	11.9	10.7
Malaysia	58319	73857	1490	8440	2.6	11.4
Pakistan	9308	10191	1730	1830	18.6	18.0
Suriname	552	512	168	126	30.4	24.6
Tajikistan	711	49	50	30	7.0	61.2
Turkmenistan	966	570	180	230	18.6	40.4
Uzbekistan	3055	736	660	470	21.6	63.9
Yemen	2167	3027	740	620	34.1	20.5
Others	**300575**	**227879**	**40522**	**50624**	**13.5**	**22.2**
OIC Total	**509956**	**469474**	**141434**	**145295**	**27.7**	**30.9**

Source: IMF, Direction of Trade Statistics, yearbook 2002.

ANNEX B

TABLE B1: PREVIOUS AND PROSPECTIVE EU ENLARGEMENTS

1973	Denmark, Ireland and the United Kingdom
1981	Greece
1986	Portugal and Spain
1995	Austria, Finland and Sweden
2004	Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia
2007	Bulgaria and Romania

Source: http://www.europa.eu.int/comm/enlargement.

TABLE B2: THE STATE OF PLAY OF ACCESSION NEGOTIATIONS (DECEMBER 2002)*

Chapter/ Country**	**BU**	**CY**	**CR**	**EE**	**HU**	**LT**	**LV**	**MT**	**PL**	**RO**	**SL**	**SK**
1. Free movement of goods	X	X	X	X	X	X	X	X	X	O	X	X
2. Free movement for persons	X	X	X	X	X	X	X	X	X	O	X	X
3. Freedom to provide services	X	X	X	X	X	X	X	X	X	O	X	X
4. Free movement of capital	X	X	X	X	X	X	X	X	X	O	X	X
5. Company law	X	X	X	X	X	X	X	X	X	X	X	X
6. Competition	O	X	X	X	X	X	X	X	X	O	X	X
7. Agriculture	O	X	X	X	X	X	X	X	X	O	X	X
8. Fisheries	X	X	X	X	X	X	X	X	X	X	X	X
9. Transport	O	X	X	X	X	X	X	X	X	O	X	X
10. Taxation	X	X	X	X	X	X	X	O	X	O	X	X
11. Economic & Monetary Union (EMU)	X	X	X	X	X	X	X	X	X	X	X	X
12. Statistics	X	X	X	X	X	X	X	X	X	X	X	X
13. Social policy	X	X	X	X	X	X	X	X	X	X	X	X
14. Energy	X	X	X	X	X	X	X	X	X	O	X	X
15. Industrial policy	X	X	X	X	X	X	X	X	X	X	X	X
16. Small & medium-sized Undertakings (SME)	X	X	X	X	X	X	X	X	X	X	X	X
17. Science & research	X	X	X	X	X	X	X	X	X	X	X	X
18. Education & training	X	X	X	X	X	X	X	X	X	X	X	X
19. Telecomm & IT	X	X	X	X	X	X	X	X	X	X	X	X
20. Culture & audio-visual	X	X	X	X	X	X	X	X	X	X	X	X
21. Regional policy	O	X	X	X	X	X	X	X	X	O	X	X
22. Environment	O	X	X	X	X	X	X	X	X	O	X	X
23. Consumers & health protection	X	X	X	X	X	X	X	X	X	X	X	X
24. Justice & home affairs	O	X	X	X	X	X	X	X	X	O	X	X
25. Customs Union	X	X	X	X	X	X	X	X	X	X	X	X
26. External relations	X	X	X	X	X	X	X	X	X	X	X	X
27. Common Foreign & Security Policy (CSFP)	X	X	X	X	X	X	X	X	X	X	X	X
28. Financial Control	X	X	X	X	X	X	X	X	X	O	X	X
29. Financial & budgetary provisions	O	X	X	X	X	X	X	X	X	O	X	X
30. Institutions	X	X	X	X	X	X	X	X	X	X	X	X
31. Other	-	X	X	X	X	X	X	X	X	-	X	X
Chapters opened	30	31	31	31	31	31	31	31	31	30	31	31
Chapters closed	23	31	31	31	31	31	31	31	31	16	31	31

Source: http://www.europa.eu.int/comm/enlargement/negotiations/pdf/satateofplay_20_12_02.pdf.

***** Chapters opened, but still subject to negotiation are marked (O). Chapters closed are marked (X).

******BU: Bulgaria; CY: Cyprus; CR: Czech Republic; EE: Estonia; HU: Hungary; LT: Lithuania; LV: Latvia; MT: Malta; PL: Poland; RO: Romania; SL: Slovenia; SK: Slovakia.

TABLE B3: COPENHAGEN AGREED FINANCIAL PACKAGE: MAXIMUM ENLARGEMENT-RELATED COMMITMENTS BETWEEN 2004 AND 2006 FOR 10 NEW MEMBER STATES (EUR MILLION, 1999 PRICES)

	2004	**2005**	**2006**
Heading 1: Agriculture, of which	1897	3747	4147
1a. CAP	327	2032	2322
1b. Rural development	1570	1715	1825
Heading 2: Structural actions after capping, of which	**6070**	**6907**	**8770**
Structural Fund	3453	4755	5948
Cohesion Fund	2617	2152	2822
Heading 3: Internal policies and additional transitional expenditure, of which	**1457**	**1428**	**1372**
Existing Internal policies	846	881	916
Nuclear safety	125	125	125
Institution building	200	120	60
Schengen facility	286	302	271
Heading 5: Administration	**503**	**558**	**612**
Total (Headings 1, 2, 3 and 5)	**9927**	**12640**	**14901**
Total commitment appropriations (Berlin 1999 scenario)	11610	14200	16780
Payment appropriations (Enlargement)	5686	10493	11840
Payment appropriations (Berlin 1999 scenario)	8890	11440	14220
Special cash flow facility	1011	744	644
Temporary compensation	262	429	296
Total	**1273**	**1173**	**940**

Source: http://www.europa.eu.int/comm/enlargement/financial_package.

TABLE B4: COPENHAGEN AGREED FINANCIAL PACKAGE: TOTAL COMMITMENT APPROPRIATIONS, 2004-2006 (EUR MILLION, 1999 PRICES)

	CY	CR	EE	HU	PL	SL	LT	LV	SK	MT	Total
Agriculture											
- CAP											**4682**
- Rural development	66	482	134	534	2543	250	434	291	352	24	**5110**
Structural actions	101	2328	618	2847	11369	405	1366	1036	1560	79	**21746**
Internal Policies											**4256**
of which:											
Existing policies											2642
Institution building											380
Schengen facility	0	0	69	148	280	107	136	71	48	0	858
Nuclear safety	0	0	0	0	0	0	285	0	90	0	375
Administration											**1673**
Special cash-flow Facility	38	358	22	211	1443	101	47	26	86	66	**2398**
Temporary budgetary Compensation	300	359	0	0	0	131	0	0	0	166	**987**
Total Commitments											**40852**

Source: http://europa.eu.int/comm/enlargement/negotiations/pdf/financial_framework.pdf.