Effects of the key 1992 changes

Removing physical barriers

- will free the movement of goods and services within Europe
- will assure that a product can enter any EC country, once it has entered one of them

Removing technical barriers

- will allow unhindered distribution to all EC countries once a product has met the technical standards of one EC country
- will allow industry to produce for a wider market
- will open the public procurement market to competition

Removing fiscal barriers

- will eliminate the wide differences in indirect taxes that distort trade between Member States

Liberalization of capital movements

- will enhance competition and choice in financial services
- will make channeling savings into investment more efficient and less costly
- will give borrowers access to more diverse and cheaper financing for investment and trade within the EC

Monetary Union

- will reduce the uncertainty of exchange rate fluctuations
- will save on the costs of currency exchange
- will facilitate intra-EC trade
- will increase price stability

Beyond 1992

One indication of the business potential posed by the Single Market initiative is the array of European countries that want to be linked in one way or another to the EC. The countries of the European Free Trade Association (EFTA) [2] and the EC are presently negotiating the establishment of a common European Economic Area (EEA). In addition, Poland, Hungary and Czechoslovakia are negotiating to become associate members of the Community by the end of 1991.

EFTA consists of Austria, Finland, Iceland, Norway, Sweden and Switzerland. In December, 1990, the EC and EFTA reaffirmed their commitment to signing an agreement to establish the EEA by the summer of 1991. The EEA will lead to even deeper economic ties between the participants. The conclusion of such an agreement would result in a market of more than 375 million people, with minimal trade barriers, and would add an estimated one trillion dollars to the EC's already large GDP (four of the six EFTA countries have a higher GDP per capita than Germany).

The EEA would not only allow for the free movement of capital, goods, services and labour amongst the signatories, but would also result in the harmonization of competition policy and taxes; the simplification of border-crossing procedures; and special treatment of disadvantaged areas and groups of people.

While these negotiations are progressing, they have been complicated by differing views held by EFTA countries concerning the nature of the EEA: Austria and Sweden tend to see the EEA as an interim step to full EC membership (Austria has already formally applied) whereas Switzerland and Iceland tend to see the EEA as an end in itself.

In the latter half of the 1980s, the EC and the countries of Central and Eastern Europe concluded a number of trade and cooperation agreements, providing for trade benefits and financial assistance. Following the internal changes in Eastern Europe, the EC is now replacing these pacts with the more comprehensive "Europe Agreements". These will allow for deeper economic, political and cultural ties. The EC has also played a prominent role in the creation of the new European Bank for Reconstruction and Development which provides loans for projects in Central and Eastern Europe. Ultimately, the EC expects that closer cooperation will lead to integration of the EC and these countries into a continental free trade zone.

As a result, many firms are seriously considering using plants in Central and Eastern Europe as platforms for markets in both parts of the continent. General Electric (GE) has bought the Hungarian manufacturer, Tungsram, thus positioning itself to produce light bulbs for all of Europe. General Motors (GM) is investing $200 million in Hungary and Czechoslovakia to produce motors for Opel cars while Asea Brown Boveri has recently bought a turbine manufacturer in Poland. Czechoslovakia, Hungary and Poland all have a large number of scientists and technicians, and a highly skilled work force that is available at a fraction of Western costs. Thus, access to additional European markets beyond 1992 is an added incentive for Canadian businesses to take advantage of the move to a Single Market.

[2] Liechtenstein, though not a full member of EFTA, is also involved in these negotiations.