The Single European Market [1]

The Deutsche Genossenschaftsbank, Frankfurt, and its subsidiary, DG Bank-Switzerland, are well-known partners of Kuwait. The DG Bank is the main commercial bank of the cooperative banking sector in Germany and represents a very prominent part of the German banking system. According to the latest figures published by the Bundesbank, 3358 cooperative banks and five regional cooperative central banks are registered with it, in addition to the DG Bank. The balance sheet of the whole cooperative sector forms about 16% of the total balance sheet volume of all banks in Germany. More impressive than the size and number of these banks is the concept of cooperative banking formulated during the past century, which has enabled them to survive and perform successfully even during difficult times.

The single European market, and its expected realization by the end of 1992, will be a challenge not only for Europe but also for the rest of the world, including the member states of the Gulf Cooperation Council,

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(1) Delivered on October 31,1989, in Kuwait, on the occasion of the seminar organized by Al-Tammar Economic Consultancy Office and the DG-Bank Group in Germany and Switzerland.

such as Kuwait. According to the latest figures available, the value of Kuwaiti imports from the EC countries is more than 30% of its total imports. Our exports have a similar structure in relation to Europe, in particular the EC countries and Switzerland.

That simple ratio clearly shows the importance of the implications of the single European market for us. In addition, the Kuwaiti public and private sectors have, over the last two decades, formed an important source of investment funds and capital for the EC and Switzerland. Kuwait and other states of the Gulf Cooperation Council have played the role of investors in Europe. In the seventies and early eighties this region supplied some of the funds that enabled international financial markets to grow. Considerable investments have been undertaken by GCC governments, authorities and citizens, even during times of political and economic uncertainty in Europe, making the partners of some importance, who have faith in their European counterparts.

Now, this trust is being shaken somewhat, due to developments initiated by the EC. The possibility of protectionism upon the completion of the single market is worrisome. In the banking field, the so called Second Directive on Banking could be mentioned as an example. Under a strict interpretation, this proposal of the EC Commission, which was adopted by the Council of Ministers in July 1989 as a temporarily common position, could easily be used to restrict free banking and branching between the EC and third countries.

In order to achieve a free financial market, three prerequisites have to be met: freedom of capital movement, the right to sell financial services across borders, and complete freedom in the setting up of branches and subsidiaries for the suppliers of these services. The proposals of the EC Commission on the single banking market adhere to the familiar concept of universal banking, which means full-service banks. From 1993, all EC credit financial institutions will be able to offer cross-border services throughout the EC. Moreover, branching out will be greatly facilitated. The licensing of a bank in one EC country will imply the right to establish offices in all other member states and, in principle, under the same conditions as in the country of origin (the single license approach). Applying the principle of mutual recognition of rules and standards, foreign branch operations will be regulated and supervised only by the authorities of the parent bank's country. Third country banks, under the terms of the Commission's proposal, will also benefit from this simplification, if they are already represented by a subsidiary (a branch will not be sufficient) in any one of the twelve EC member countries. After 1992, access to the banking market for new applicants will be granted under the conditions of reciprocity only, a problem for this region. This whole issue in not yet clear.

In order to prevent competitive distortions among certain banks in Europe, the EC authorities plan to combine the opening of markets with a certain degree of harmonization of bank law in order to establish a level playing filed for all banks. The most important step here is to standardize minimum limit requirements for a bank's capitalization, i.e. the ratio of a bank's working capital to its risk-weighted assets, and to agree on a common definition of bank capital.

As regards determining the proper ratio for capital to risk-weighted assets, discussions and coordination have also taken place among the member countries of the Bank for International Settlements and at conferences held by international banking supervisors. In the field of the capitalization of banks, the position of GCC banks is in conformity with international standards. But there is concern about the discrimination against Kuwait and other GCC countries in the so-called "country risk approach" of the proposed capital adequacy regulations. This approach assigns a higher risk rating for bank claims on customers outside the EC and certain other industrialized nations.

However, according to statistics published by the Bank for International Settlements, the size of funding of international banks by the GCC countries is three times higher than their borrowing level. In comparison, among the industrialized countries assets and liabilities balance each other more or less. Therefore, the discriminatory risk rating in Basel Committee classification for this region is not justified in economic or technical terms.

Another most important area of concern is the protection of investments. The present legal system in some EC countries is not adequate to establish full confidence in the protection of investors' rights against claims originating from third parties. Some prominent examples of the past have shown the difficulties and uncertainties involved, especially when claims are filed by other third world countries.

The impact of the single market on nations outside the EC. will naturally depend to large extent on the EC's future trade policy and its policy in relation to free capital movement. Essentially, everything revolves around the question of whether the establishment of the unified market will lead to the strengthening of external EC trade barriers - effectively as compensation for increasing competition in Europe's internal market - or whether the process will result in further liberalization of foreign commercial policy.

Unfortunately, the question of directing trade relations with non-EC countries after 1992 has remained unanswered so far. The 1985 White Book that the EC Commission published on the single market does not cover the implications for foreign trade policy. This uncertainty has given rise to anxieties about pan-European protectionism, or “Fortress Europe”. It is to be hoped that such fears are unfounded, and that EC members will continue to be interested in maintaining an open market to the outside world. The Cooperation Agreement between the Gulf Cooperation Council and the EC, signed in June 1988, stated that in a future trade agreement the parties would commit themselves to solutions wholly compatible with the GATT rules. Strict obedience to GATT rules applies for EC trade policy in general. Indeed, trade in most sectors, goods as well as financial services, should not be adversely affected by the single market.

Kuwait and the GCC also followed with interest the latest developments toward monetary integration in Europe, realizing that the more advanced stages of the European Monetary Union (EMU) were a long way into the future. However, it was clear that the whole project in its various stages would affect inter-European financial relationships and the financial interests of outside partners. Therefore, the Gulf countries had a strong interest in the European experience in integration, not only because common financial and economic interests, but also because of lessons to be learned.