Introduction

AVI SHLAIM AND G. N. YANNOPOULOS

Historical links, geographical proximity and a degree of interdependence in a number of crucial areas combine to make the Mediterranean region an area of special interest and special responsibility for the European Economic Community (EEC). The countries bordering on the Mediterranean take 12 per cent of the Community’s world trade, which makes them a market comparable in importance to the United States. In addition, the Community is vitally dependent on North Africa and the Middle East for its oil supplies. For the countries of the Mediterranean themselves the link with the Community is of even greater importance because it provides a market for some 52 per cent of their exports; it is a source of technical and financial aid and it employs the overwhelming majority of their migrant workers. Thus, in economic terms, the Mediterranean countries, taken together, represent a principal trading partner for the EEC, while to their own prosperity and prospects of economic development the Community is a factor of the highest magnitude.

This high degree of real and potential economic interdependence is further enhanced by historical and cultural affinities and by the political dimension that pervades this relationship. As the Commission’s first President, Walter Hallstein, used to say, ‘we are not in business; we are in politics’, and the desire to promote a stable regional order which would safeguard the security of its southern and south-western flanks has played a part, albeit not a determining one, in shaping Community policies towards this region. Not wishing to emulate the patterns of influence exercised by the traditional super-powers and not possessing the diplomatic and military means with which this influence is underpinned, the Community has preferred to rely on trade links as a key factor in enabling it to play a balancing role and promoting conditions of lasting social and economic and hence political stability in this region. However, there is a strong school of thought within the Community that goes further, in advocating that the
A. Shlaim and G. N. Yannopoulos

Mediterranean basin should deliberately be cultivated as a political sphere of influence\(^1\) or, more modestly, that regional interdependence should be institutionalised within the framework of a ‘sphere of association’. For the Community’s partners, many of whom had to choose in the past between the two super-powers who dominated the scene – Russia and America – this offers the alternative of alignment with a new type of great power that has been deliberately projected as a ‘civilian power’, or, at any rate, the possibility of reducing their dependence by diversifying their links.

Given the stakes involved and the existence of unique conditions for regional co-operation, the apparently random and almost absent-minded manner in which the EEC’s policy towards the Mediterranean evolved is most striking. Indeed, the importance of the problems was almost matched by the incoherence of the policies. Lacking an agreed overall conception of its own, the Community simply reacted to the requests of its neighbours by taking little steps of scant economic and political significance. Beginning with the Athens accord, which came into force in 1962, the EEC concluded a series of association agreements, trade agreements and preferential trade agreements with practically all the countries bordering on the Mediterranean Sea by the end of a decade.\(^2\) The end product was a mosaic of agreements that had little relation to one another, complex and divergent commercial content, an assortment of institutional modalities and different provisions regarding the political future of each bilateral relationship.

This improvisation and step-by-step approach is in part explained by the flimsy foundation that the Rome Treaty provided for dealing with the countries of the area. The Treaty does not envisage any arrangements for the Mediterranean region as a whole; only the possibility of association with the countries that had been historically linked to member states is referred to in the annexed declarations. Article 237 does stipulate that ‘any European State may apply to become a member of the Community’, but, although in


Introduction

theory this covers the countries of the northern shore, in practice their economic under-development and the undemocratic nature of their regimes has precluded full membership. Consequently, all the association agreements concluded by the Community have been based on Article 238. In the case of trade agreements, the Community has had to rely on Article 113, which concerns the common commercial policy.

The effect of the frail treaty bases was reinforced by the fact that the agreements were negotiated at different stages in the evolution of the Community, when the process of economic integration was in a formative stage and at a time when dealings with third countries were severely hampered by the absence of common agricultural and energy policies. The so-called Mediterranean policy consequently evolved not out of a clear role that the Community defined for itself but as a response to the array of external pressures to which the original member states had to react as best they could given the limited means at their disposal for collective action.

The Community’s system for making foreign policy constitutes a further factor that is not simply of historical interest but also has a continuing bearing on the Mediterranean policy. The salient feature of this system is the artificial but insistently applied division between external economic relations (‘low politics’) which fall within the jurisdiction of the Community organs, and ‘pure’ foreign policy (‘high politics’) which remains the jealously guarded province of the member states who have set up a loose inter-governmental framework of political co-operation outside the Community machinery. The extremely tenuous links that connect the Community institutions with the Davignon framework of political co-operation militate against the formulation of a coherent and integrated external policy which encompasses the economic and the political dimensions and the translation of impulses for co-operation among the Nine into effective action by the Community’s institutions. It is largely this deficiency of the institutional system for handling external relations that makes the Community appear on the international stage as a ‘fettered giant’ (in Ralf Dahrendorf’s phrase). In the Mediterranean sphere this bicephalous policy-making system has hampered the evolution of a political role commensurate with the Community’s vast economic power, and has permitted the growth of a policy the component parts of which were not always compatible.

By the early 1970s it became obvious that disjointed incrementalism would have to give way to a more systematic and coherent approach and

that the collection of association and trade agreements which had accumulated in the course of the previous decade would have to be superseded by a comprehensive framework which would take into account the problems and needs of the region as a whole and balance the claims of this region in terms of aid and trade against those of the Community’s other partners, notably the African associates. The prospective enlargement of the Community lent urgency to this task because the agreements with the Six had to be extended to the Nine, and some of the Community’s Mediterranean partners made their agreement to the technical adaptations contingent on an improvement in the content of the accords.¹ The nature of the relationship was in any case bound to be affected by the changing balance of self-sufficiency in food that was occasioned by the accession of three new members – Denmark, Britain and Ireland – with their large population and by the arrangements that were to be worked out with the Commonwealth ‘associables’ regarding the access of their agricultural products to the European market.

All these factors converged to put pressure on the EEC to combine the revision of the agreements in force with an attempt to lay the foundations of a new global policy towards the Mediterranean. In October 1972, the Commission submitted its proposals for the progressive establishment of free-trade areas linking all the Mediterranean countries as well as Jordan with the European Community.⁵ In November, the Council of Ministers agreed on the adoption of a global policy that would include within its scope the following principal categories of agreements:

the Association Agreements with Greece and Turkey, which are intended to lead to full membership at an unspecified future date (although the agreement with Greece was ‘frozen’ after the colonels’ coup in 1967);

the Association Agreements with Morocco and Tunisia, the origin of which goes back to the declaration of intent annexed to the Treaty of Rome – Algeria originally enjoyed member status as a French département, but its position after independence was not formally defined and Algeria remains a juridical anomaly;

the Association Agreements with Malta and Cyprus, the second stage of which calls for the establishment of a customs union;

the preferential trade agreements with Spain, Israel, Egypt and Lebanon.

---


Introduction

The global policy was to be pursued in three principal directions: free trade in industrial goods; the removal of restrictions from a substantial part of agricultural trade; and co-operation. The policy envisaged the progressive dismantling of all tariffs on industrial goods leading to a free-trade area in this field by 1977. Although this was not matched by the provision for a free-trade area in agricultural goods, the policy was calculated to grant concessions on some 80 per cent of the Mediterranean countries’ exports to the Community. The third and, in the Commission’s view, the most important element was development co-operation encompassing technical co-operation, schemes for environmental protection, financial aid and the provision of freer access and better conditions of employment for migrant workers.

In June 1973, the Commission was given a mandate to open talks with Spain, Israel, Morocco, Tunisia and Algeria. When negotiations opened in July, all five, with varying degrees of vehemence, criticised the Community package. Their dissatisfaction related principally to the agricultural component of the package. The Maghreb countries and Spain were also disappointed with the EEC offer for the treatment of migrant workers.

In the second round of negotiations held in the winter, the Commission improved the terms offered for the treatment of refined petroleum products from the Maghreb countries as well as making more generous concessions in the agricultural field. But the deadline of 31 December 1973 which the Community had optimistically set itself for completing the implementation of the global policy fell by the wayside – not least because of the Community’s nervousness over pursuing trade negotiations with this part of the world in the wake of the Middle East war and the energy crisis.

Many months of intensive wrangling between the member states elapsed before the Council of Ministers, in July 1974, reached agreement on a new mandate for the resumption of negotiations with the Mediterranean countries. These countries were not responsible for the delays. On the contrary, all of them repeatedly urged the Community to resume discussions, and the Maghreb countries went as far as to threaten the Community representatives that the projected Euro-Arab dialogue would be jeopardised by continued procrastination in the Mediterranean negotiations. The difficulties sprang largely from the conflict between the consumer-oriented approach of the British and the producer-oriented approach of the Italians and the French, who see imports of cheap farm goods from the Mediterranean as a boon and a threat respectively. Paradoxically, the Italians and the French, who are foremost advocates of a Community
sphere of influence in Mare Nostrum, also feel the most threatened when it comes to offering concrete concessions simply because they grow similar products; Britain, on the other hand, although advocating a liberal trade policy, has great reservations about proceeding along the road to a major regional role and urges a cautious approach that carefully considers all the possible political and strategic consequences and especially the reaction of the United States. In the absence of agreement on a meaningful set of policy guidelines of a political nature, it is hardly surprising that the Community’s approach to the Mediterranean has been marked by preoccupation with minutiae. Thus agreement on a Community package was obstructed for some time by differences of view as to whether the EEC customs reduction of 55 per cent would apply exclusively to tinned fruit salads weighing more than 1 kg or also to those of a lesser weight.

As this book goes into press, the future of the much-vaunted global policy remains uncertain. At the reopening of negotiations in October 1974, the new Community package attracted critical comment. In view of the difficulties overcome to arrive at a definition of the Community’s position, the prevailing political paralysis and the deterioration in the economic situation of the majority of the member states, it is unlikely that large additional concessions would be forthcoming. If the Community’s Mediterranean policy is not substantially called into question and negotiations with the six priority states (Morocco, Tunisia, Algeria, Spain, Israel and Malta) are successfully concluded, then another round of negotiations will take place with Egypt, Syria, the Lebanon and Jordan, who have expressed their interest in being included within the scope of the EEC’s global policy. A further factor of uncertainty relates to the dialogue between the Nine and the oil-producing countries of the Middle East. Although this Euro-Arab dialogue is conducted at the level of governments and not by the Community and although it constitutes a separate area of policy, relevant developments are bound to affect the progress of the Mediterranean policy and vice versa.

This volume is not primarily concerned, however, with the future of the relations between the European Community and the Mediterranean countries. The purpose of the foregoing remarks was simply to outline recent policy developments and to place them within a broad historical and political perspective. The present volume examines in a systematic way a number of the most important aspects of the economic relations between the EEC and the Mediterranean countries as these relations have developed under the impact of the bilateral association and trade preference agree-
Introduction

ments concluded by the EEC. The emphasis is primarily on trade links, although the interdependence between the two groups of countries through labour movements is also examined. One aspect of the economic relations between the EEC and the Mediterranean area which is not examined, because of the lack of comprehensive and reliable statistical sources, is foreign direct investment.

The examination of the economic relations between the EEC and the Mediterranean area focuses on two major issues. The first is the impact of the Common Market association and trade preference agreements on the countries of the area and on third countries. The second is the implications of the Community policy on association for the world trading system. The book thus tries to answer two questions which have hitherto received scanty attention in the literature of international trade and international economic relations. The first relates to the evaluation of the actual effects of association and trade preference agreements between countries which are at different stages of economic development. The second relates to the study of the feasibility of a global EEC policy towards the Mediterranean area that, hopefully, will enable the Community to exert a balancing and stabilising influence round its southern flank and the effects of the regional arrangements worked out by the Community and its partners for third countries and for the General Agreement on Tariffs and Trade (GATT).

The book is divided into four parts. The first part gives an overview of the way in which the agreements have influenced trade flows. An attempt to quantify the impact of Common Market preferences for the Mediterranean countries is made in the second chapter by M. McQueen. His approach follows a path different from that suggested by traditional customs-union theory. His concern is with the Mediterranean countries alone rather than with the whole area covered by the quasi-customs unions created by the association treaties. In his paper, M. McQueen tries to establish that part of changes recorded in the share of EEC trade held by the Mediterranean countries which can be attributed to the special trade preferences granted to them. The method as such does not measure the total trade diversion within the customs union and does not aim at indicating the amount of trade creation in the form of EEC imports supplanting domestic production in the associated states. But, although conventional customs-union theory considers the latter as a gain, a developing country with infant industry to protect can hardly adopt the same view.

Professor Kreinin uses the conventional approach to estimate in the third chapter the possible effects on third countries and, in particular, on
A. Shlaim and G. N. Yannopoulos 8

the United States. He finds that trade diversion against the United States is rather negligible – a view also reiterated in Professor Kalimotousakis' contribution in chapter 7. Professor Kreinin concludes that the resistance of the US Administration to the EEC policy towards the Mediterranean is determined not by the size of the trade diversion effects against American exports but by concern over the implications that it has on the world trading system as this evolved under the impact of GATT.

In the fourth chapter Professor Kebschull argues that only a disaggregated, product-by-product approach can produce any meaningful results as to the relevance of tariff preferences on trade flows. He shows that factors other than prices are more important in explaining changes in the shares of particular countries and products in world markets and that tariff concessions exert only a small influence in the evolution of these shares.

The second part of the book deals with two special problems the analysis of which is vital in understanding the nature of the economic interdependence between the EEC and the Mediterranean countries. The first concerns the Common Agricultural Policy (CAP) and the problems that it raises for the agricultural producing countries of the area. The second concerns the dependence of the EEC on the surplus labour of the area. It is extremely difficult to go through the maze of the CAP in the short space of a single article, but J. Marsh shows how the Community tried to regulate the export of Mediterranean agricultural goods to the EEC in order to protect its own producers. This restrictive attitude of the Community is also unfavourably commented upon by several contributors in the country studies of part 3 – particularly by G. Vassiliou and Professor R. Aliboni. Several contributors thus feel that such restrictions and regulations on agricultural imports from the Mediterranean area are hardly conducive to the promotion of economic development in the countries of the region. In chapter 6 G. N. Yannopoulos shows that without migrant labour the export-led growth of the economies of the pre-enlargement EEC would have run into capacity constraints. The EEC countries have relied upon the pool of surplus labour of the Mediterranean basin – a pool that was ingeniously tapped during periods of strained labour markets and 'topped up' again during periods of economic recessions.

Part 3 contains six country studies, which examine in detail the impact of the agreements on individual or groups of countries. Some of the studies, where data were fairly easily available, attempt an export analysis. In other studies, where the recently concluded agreements have not yet been given time to show up their results, attempts were made to look into the future
**Introduction**

and to predict possible results on the basis of the knowledge of the agreements and the analytical insights offered by economic theory and the history of economic development. The study on Greece by Professor Kalamotousakis starts by developing an analytical framework adapted from the conventional theory of customs union among developed economies to fit the special conditions that prevail in the formation of a customs union between an underdeveloped country and a group of highly industrialised countries. The author shows that the ‘privileged’ associate member status granted to Greece mainly because of political considerations has become a strategic factor in the growth and changing structure of Greece’s exports and an important contributory factor in the acceleration of its industrial development. However, in the next study, on Turkey, Dr J. N. Bridge demonstrates that arrangements similar to those with Greece produced rather disappointing results both on export performance and growth acceleration. It thus seems that the ability of the indigenous economic agents to mobilise and re-direct the domestic resources of an associate country is a necessary condition to make the association beneficial to the developing country. The next chapter, by R. Aliboni, discusses the ‘development associations’ that exist between the Maghreb countries and the EEC. After examining the nature of these associations, Professor Aliboni explains why the concessions on agricultural products are far from generous and how these concessions are further undermined by the interpretation given in practice by the Community officials to the already complicated Community rules on agriculture. The case of Cyprus – discussed by G. Vassiliou in the next chapter, together with the agreements with Lebanon and Egypt – illustrates and reinforces the same point. The last two chapters of part 3 examine in some detail the effects of two trade preference agreements – namely, those with Spain and Israel, particularly from the point of view of the industrial sector of the two countries. Dr J. B. Dinges finds in the agreement with Spain many examples of what he calls ‘the neo-mercantilist philosophies’ within the Community. Spain’s exports of cotton and some petroleum products enjoy only limited preferences, while its exports of iron and steel products, cork manufactures, cotton yarn and thread are excluded altogether from the agreement. Israel – as Dr Minerbi shows in his contribution – similarly has a list of ‘sensitive’ products whose export growth is curtailed presumably to protect some sectoral Community interests. For many of these products, export expansion prospects have been adversely affected following the enlargement of the EEC.

Part 4 draws upon the previous chapters in order to evaluate the
‘Mediterranean’ policy of the EEC in its totality. G.-P. Papa and J. Petit-Laurent give in chapter 13 a comprehensive review of the evolution of the commercial relations between the EEC and the Mediterranean countries and examine the conflict of interests and perspectives among the member states which is essential to the understanding of the Community’s Mediterranean policy. The penultimate chapter, by S. Henig, looks at the EEC Mediterranean policy in the context of the external relations of the European Communities. Whereas Papa and Petit-Laurent see the need to evolve an ‘overall’ or ‘global’ strategy and a move from empiricism to a total concept, Henig argues that in terms of the importance of the Mediterranean to the Community from the economic viewpoint ‘the amount of time expended by the Community on reaching bilateral agreements has been misspent’. He argues that this is particularly true at present, when various bodies such as the United Nations Conference on Trade and Development (UNCTAD) and GATT are promoting the idea of schemes of generalised preferences. However, one should not forget that the EEC–Mediterranean relations have both an economic and a political basis.

The last chapter, by D. Robertson, pulls together the main points that emerge from the various contributions in this volume in an effort to see how the system of multiple trade discrimination that evolved through the Community initiatives stands in relation to the multilateral trading system promoted by GATT. The Community’s formal commitment to the principle of a ‘global’ policy towards the Mediterranean countries is bound to intensify the controversy of multilateralism versus regionalism in international economic relations. Although the author recognises the importance of political objectives in the formulation of the Community’s policy towards the countries of the Mediterranean basin, he nevertheless finds that ‘very little attempt appears to have been made to ascertain the economic implications of the complex series of piecemeal bilateral trade agreements’. Perhaps the most important conclusion emerging from the examination of the EEC–Mediterranean economic relations is the need to establish a comprehensive Community strategy on international trade relations.