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PROGRAMME: "Alternative development strategies for the  
Mediterranean region. Interrelations between  
national, regional and world strategies."

Report on :

"EUROPEAN INTEGRATION AND MEDITERRANEAN DEVELOPMENT"

by

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# 1. Regional and interregional realities in the Mediterranean area

It is frequently considered / that the Mediterranean area is a region of its own which cuts across Western Europe as well as Africa and the Middle East. Rhetorical arguments are often supported to confirm this attitude. However I do not think that this approach corresponds to a correct description of the economic and political realities prevailing in the area. Even though a Mediterranean framework may be justified for several reasons and must be supported, the existing differences as for economic development and political alignment within the Mediterranean - far from ruling out the potential for co-operation among the Mediterranean countries (MCs) - require the admission of the interregional nature of the Basin.

The claim of the existence of a regional Mediterranean peculiarity is often a matter of convenience, which leads to specific advantages. It is not surprising that rivalries between Mediterranean and non-Mediterranean countries within the European Community have been largely responsible for working out such a misleading interpretation of the Mediterranean area as a region, as it might be a way to shift the centre of gravity of the European Community from North to South: this may explain why this attempt is frequently used by countries like France, Italy and Greece, in order to pursue political aims through arguments that do not need to be objectively correct, but require to be convincing and strong in the confrontation with more powerful North-European partners.

If we admit that the Mediterranean Basin is not a mere expression of unity, in spite of the cultural and historical links which cannot be denied, but is the crossing place of a multiplicity of actors, including the two superpowers, the analysis of the economic, social and political processes underway might lead to more realistic and reliable conclusions.

This is not to neglect the existence of integrating pressures among groups of MCs but we must admit that these pressures are not geared to a global multi-lateral Mediterranean settlement, but rather to either regional or bilateral agreements which have meaningful relevance in the Mediterranean scenario.

Differentiation is present in the distribution of factor endowments. Mineral resources differ to a great extent from one country to another in the area. The energy potential (both from oil and other sources) is highly diversified. As far as population is concerned, the ratio of population to surface is widely different between countries and within countries as well. All MCs (except Israel) have for a long time had strong net migration outflows, but population is stagnant or marginally decreasing in some countries, moderately increasing in others, increasing very fast elsewhere. Both the composition and the direction of migration from MCs within the area and from the area have changed deeply in recent years.

Agricultural potential is also strongly variable, even though a common background would seem justified on the basis of similarities of kinds of agricultural commodities produced. Industrial patterns are even more diversified. Differences in political and institutional systems are much more radical.

The admission of these differences is not to say that no integration is possible in the area. On the contrary it is well known that different networks of co-operation have been created and represent a clear evidence of the existence of parallel processes of economic and political integration both on the northern and the southern shore of the Basin.

However these processes are not leading to a global Mediterranean unity, but show a different institutional intensity as well as a different political and economic meaning. These regional systems do not converge their attention towards the Mediterranean area, or any selection of riparian countries. Regional integration processes in the Mediterranean usually belong to areas which include riparian nations as well as non-bordering countries. As a matter of fact there is evidence that most MCs will never consider Mediterranean unity as stronger than European and Arab unity respectively, which represent a more powerful centre of gravity.

This is why the European Community plays such an important role in the area; the same reason justifies the inclusion of all Middle-East countries (that is to say also the Gulf nations) when dealing with problems of the riparian Arab countries, as they have established a typical sort of regional relation. Each regional process within the area - as I have just stressed - generally has its focus on a non-Mediterranean centre. This circumstance immediately entails a few examples: oil is one of the major dynamic factors which favour Arab integration, but is not a Mediterranean factor; the enlargement of the European Community may have important effects on the Mediterranean

relationships, but the EC cannot absolutely be considered just as a Mediterranean appendix.

Once the interregional nature of Mediterranean relations is ascertained, the main consequence is that whichever scheme for co-operation must be studied and prepared starting from the cooperation and integration processes within the various regions bordering the Basin. Regional processes play a tremendous role in interregional relationships and it is important to understand why.

A further consequence is that the Mediterranean must be considered as an open area. This is true not only for co-operation potentialities within the Basin, but also for conflictual relations. As a matter of fact conflicts induced from outside cannot simply be played down as alien influences which bother an otherwise co-operative environment. On the other hand, conflicts emerging within the Mediterranean belong to the different regions bordering the Basin and not to the Mediterranean itself.

A typical example of this reality is the considerable influence exerted by the East-West relationship in the area. The political confrontation between the Western industrialized countries and the Soviet group entails continuing rivalries to acquire alliances and exert influence on the developing MCs. The very co-operation between regions in the area may be seen as an instrument utilized by both West and East group to achieve their goals of political influence .

Even though this is certainly true, I think that the setting up of interregional economic links within the area may also play an alternative role, as a way to decrease too immediate

interferences from the East-West conflict evolution. It would be interesting to verify to what extent interregional economic co-operation, especially with the European Community, allow non-alignment, by substituting a North-South co-operation framework instead of the East-West dimension.

The fundamental pattern of international and regional relations which operates in the Mediterranean area continues to be that which came up after the end of the Ottoman Empire. The disappearance of such an Empire did not leave a clear-cut political situation in terms of state entities. Different communities and nationalities felt they had to assert or defend their identity. In the past this situation paved the way to interferences of the then European great powers, in order to take advantage of local conflicts, whereas local actors called in the different European powers to gain support in their own rivalries. Unfortunately the situation has not changed much presently. The European great powers have been replaced by the USA and the USSR, but the game seems to be just the same.

Again one might wonder what is the present role of Europe, in this conflictual scenario between East and West: As Western European countries are close allies of the USA, do they act as simple instruments of the Atlantic policy in the Mediterranean, and use their co-operation policy as a pragmatic way to disguise their political intentions, or do they play a more independent role in this area ?

In my view it is not possible to give a precise answer to such a complex question, without a clear understanding of

the economic relationships between Europe and the remaining MCs.

## 2. Europe and the Mediterranean: what kind of links ?

The oil shocks of the last decade have partly been responsible for the clear evidence of the reciprocal interdependence between Europe and the oil economies of the southern shore of the Basin. As a matter of fact Europe remains the most important partner for trade relations for the remaining MCs, whereas Europe is greatly dependent on oil imports as well as on export markets in any rapidly increasing economy. These simple facts show quite clearly how strong is the mutual economic interest which links all MCs and Europe. The complementarity between productive systems, even though it should not be meant as a static settlement, but as a dynamic process with changing patterns of production and trade specialization, is such that the European Community has never considered the Mediterranean just as an ordinary external area, but has always tried to establish privileged links with all MCs.

This is clearly shown by the association agreements that the EC has set up with all the riparian countries except Albania and Libya, by the tiring effort to maintain an open dialogue with all Arab countries through the so-called "Euro-Arab Dialogue". It is worth noting that a real Mediterranean policy does not exist in the European Community, all the association agreements <sup>being</sup> mere bilateral arrangements, with no global settlement.

The same economic interest is felt by the non-EC Mediterranean countries that consider the European countries as primary partners

for the contribution that mutual relations could give to their respective development. Some data may help <sup>in</sup> understanding these links.

At the end of the last decade the members of the Arab League sent 35% of their exports to the European Community (the percentage was more than 50% at the beginning of the 1970s, as in the meantime the United States and Japan expanded their role as markets for Arab oil). Meanwhile 44 % of the imports of the Arab countries came from the EC (with a slight increase during the decade). The increasing importance of imports from the European Community underscores the lively mutual interest that both <sup>groups of</sup> countries have in establishing close trade links.

Despite the substantial size of interregional trade between the European Community and the Arab world, this interchange is based on a clear distinction of specialization. As for agricultural trade, the major flows are among all MCs (either Northern or Southern ones) and the Northern side of the European Community, as they refer to the typical Mediterranean food products. The border-line is quite different <sup>goods</sup> as for the industrial division of labour, as export of manufactured/ plays a decisive role in all European countries (including the Mediterranean ones), whereas the remaining MCs presents an export pattern still dominated by primary products (i.e. mineral products, oil in many cases and other minerals in others, besides the agricultural exports).

This clear distinction of roles <sup>has been</sup> is not static. As a matter of fact the export structure of the MCs/ changing over the past few years. It would be interesting to analyse the direction of these changes (I shall try to outline them later on). In any



case the dynamics of the trade relations between the EC and the MCs is towards a strengthening of mutual interdependence and not towards any lessening of these links.

The revalorization and the national reappropriation of oil of the 1970s have started a process of growing interregional interdependence which involves particularly the Mediterranean area and the European Community as a whole. The new patterns of trade and financial flows all over the world, and the new processes of industrialization entail an evolution that has stressed the interregional relationships and the development perspectives of all the partners.

In my view regional integration (as refers to both Arab countries and the European ones) is one of the crucial factors that is conditioning the growth perspectives of all the economies of the area. This may be easily seen in the case of the Arab integration, which is based mainly on the development of a large range of financial flows through the establishment of a sort of Arab financial system. This phenomenon is creating a network of regional capital movements which may lead the way to the movement of goods and - as they have already done - labour. This is to say that Arab integration may be one of the crucial factors of Arab development. On the other hand a higher rate of growth of the Arab economies favours the enlargement of market outlets for European exports, which would mean that Arab integration may offer Western Europe opportunities for co-operation.

One may wonder if the same is true also with reference to European integration: does European integration favour the development processes under way in the Mediterranean ?

It is not easy to find a clear-cut answer to such a question, as this enhanced interregional interdependence between the European Community and the Mediterranean area has given way to both danger of conflicts and opportunities for co-operation.

From the political point of view, European integration represents one fundamental reason which explain why the Atlantic Alliance is much more articulated than is commonly understood. This is not to say that the EC represents a neutral power in comparison to the Atlantic Treaty, as European integration is far from being completed in terms of harmonization of foreign policies. However divergences between <sup>the</sup> USA and the Western European countries appear on several occasions, and is summarized very well by the specific European attitude on the Palestinian issue. In fact, while a number of European States have even officially recognized the PLO, all of them subscribe to Palestinian self-determination and to their right to a territorial base in the West Bank and Gaza.

This is not to say that the Western European countries do not appreciate the necessity to contain what they - as well as their American ally - perceive as the relentless Soviet attempt to enlarge their influence in the Mediterranean. The main difference is that they feel that the means to stop the Soviet influence in the area should not be based on a simple confrontation of power (which may lead to an increased presence of USSR in those countries which may gain advantage from it for the local conflicts). On the contrary it is widely accepted in European opinion that the most efficient East-West policy

in the Mediterranean should be such as to permit the Mediterranean less-developed countries to remain non-aligned.

Interregional co-operation, mainly meant as a means to sustain economic development and improved trade relations, is the way the European countries think non-alignment<sup>of MCs</sup> may be safeguarded or at least Soviet political influence may be lessened. This European attitude is strengthened by the very existence of a sort of European policy towards the Mediterranean, even though this is still a bilateral policy towards single MCs. However, the European Community applies such a policy as an integrated body. This policy is respectful of the MCs' political options, but <sup>of</sup> is a stable factor for peaceful relationships and an indirect means/a West-East strategy which favours economic support to the development of all MCs.

If my analysis is correct, the European integration may be considered as a positive factor which acts politically in favour of the growth of all the remaining economies of the Mediterranean area.

This upshot seems a too clear-cut conclusion, and is partly influenced by an optimistic view of the political attitudes of the European governments towards the Mediterranean area. However, I do not think that this optimistic view is too far from reality as regards political issues related to the Mediterranean scenario.

But history is not only a political matter. Economic events play an important role in determining conflicts among nations as well as pure political attitudes. And it is important to ascertain if a similar positive judgement may be derived from the analyses

of the economic process of European integration and its consequences on Mediterranean growth.

The creation and development of the European Community has been a most important factor in the economic evolution of its member countries, and its future policies will greatly affect industrial growth and trade perspectives in Mediterranean countries which are either members of the Community or candidates to membership, and will be very important for all other MCs.

### 3. European integration and its economic evolution

In order to understand the real meaning of this process of integration among European countries and its effects on the Mediterranean area, it might be interesting to summarize very briefly the main steps of European integration. This process may be considered as originated from the Marshall Plan, when the destruction caused by the war provided an opportunity to reconstruct Europe in a context of freer trade. A reorientation in this direction of the strongly protected national industrial systems which had developed between the wars would have proved much more difficult in circumstances different from those of postwar reconstruction.

The period of reconstruction was followed by the creation of the European Economic Community which gave member countries the possibility to benefit from the static and dynamic advantages of international trade. The first phase of the European Community - which corresponds to the 1960s - was mainly based on a process

of liberalization of trade among European countries, which occurred while an established international economic order was still prevailing, based on a stable monetary system, a clear distinction between industrial countries and economies that provided cheap raw materials and other primary products, the unconditioned supremacy of the American economy and its complementarity with the European and Japanese economies. In that period, international trade could grow at high rates, as the international demand was also increasing very fast, which produced an expansion of foreign trade of industrial economies at rates even higher than those of physical production.

This explains why the creation of the European Community, being mainly a widening of markets for the six member-countries, entailed immediate positive effects on the export capacities of the European countries, first in their trade within the Community. Up to the early 1970s the trade within the Community grew at rates 4% higher than trade with non-EC economies.

The expansion of the export activities of all countries of the EC gained advantages from the sustained growth of domestic demand in all European economies. The expansion did not find any constraint on the factor side, as labour was easily available (also through migration) and primary resources were internationally cheap. The multiplier-accelerator mechanism enhanced a parallel expansion of both consumption and investment, as well as their autonomous components. Manufacturing represented the main vehicle of this process, as it was also the sector that adjusted its technological level more rapidly, through a continuing process of imitation and expansion.

The establishment of the European Community was not confined to a pure trade creation effect, but I think we might all agree that this effect was one <sup>of</sup> the most crucial ones. On the other hand, whereas the Community based its internal relationships on a free-trade framework, externally the Common Market still represented a protected market, not easily accessible for other industrial economies. The EC appeared like a monopolistic area, where American enterprise had no easy access unless through direct investment (as their European partners were far more productive and competitive in many sectors),; the Japanese economy was still at its first stage of growth (and its exports were more oriented towards the American market).

During the 1970s the changes which modified the structure of the whole world economy could not but have deep consequences on the European economy and its process of integration. The factors that produced these changes were due to different mechanisms. As a matter of fact the economic growth of the 1960s of the industrial countries had not proved to be consistent in the long run in a static situation. A continuous redistribution of industrial activity was underway from American to European and Japanese economies; in the meantime the sustained growth of the European economy led the way to full employment conditions, with growing wage rates; inflationary pressures which were frequently spread out in all industrial countries caused restrictive policies at domestic level. The lessening of the support to final demand at national level and the great crisis which troubled the monetary relations at the beginning of the 1970s were the preparatory events of the great event of that decade: the oil shocks.

The consequences of those events are well known. As for the European economy as a whole, it might be useful to remember that the inflationary pressures and the negative trends in terms of trade and the current balance of payments led the way to two different (and simultaneous) attitudes: an aggressive export promotion and a restrictive policy in domestic demand. In terms of regional integration, these policies could not prevent a strong reduction of intensity of the previously faster integration among European countries. A slow-down of production corresponded to a decrease in intra-Europe trade, and a simultaneous weakening of the accumulation process.

We must admit that the slow-down of the economic growth of Europe has greatly reduced the dynamic advantages of regional integration, in favour of national views to defend domestic interests.

This consequence has been clearly justified by the great differentiation of the effects of international economic events among the European countries. Trade balances began to differ among countries. The same is true with reference to the inflationary dynamics and government deficits. Meanwhile, the rate of growth was almost everywhere slowing down, with an increasing rate of unemployment.

Between 1973 to 1980 intra-Community trade suffered a sluggish trend, from 53.6% to 51% for exports and from 52% to 47% for imports, where trade flows of the European Community favoured the relations with the developing countries, which

improved considerably: from 17.9 to 22.3% (in 1981) for imports, and from 12.7% to 19.8% for exports. Namely this change was particularly true for the relations with the oil economies; EC's imports from the latter increased from 8.7 to 13.1% in value terms and its exports increased from 3.9 to 9.4%.

These data should not cause too much worry : as a matter of fact the decrease of inter-area trade among EC members was inferior to that among industrial countries as a whole. This means that the links among the European Community's members are still very strong. The Community remains a yardstick today, and the attraction of the EC as a point of reference for the other European Mediterranean countries is clear evidence of the importance of such a network of regional integration.

A further question we must answer now is the following: what kind of relationships has the European Community established with the remaining Mediterranean countries, and namely what is the effect of the enlargement of the EC to some MCs ?

#### 4. The Southern Enlargement of the European Community

As I have just said the Community remains a yardstick for most European Mediterranean countries. Greece and Turkey signed association agreements at a very early date. Spain had few formal relations with the Community until Franco's death, but European integration was perceived as a key target of later governments. Greece entered the European Community at the beginning of 1981; a request for admission as members has been advanced by Portugal and Spain, and it is reasonable to assume that the latter two countries will become members within the



present decade. Turkey has also expressed the intention of requesting admission but it is unlikely that it will formally do so until political conditions become more favourable.

It is interesting to remember what were the conclusions of the debate that discussed the relations of some of these Mediterranean countries and the European Community, even before the Southern enlargement was envisaged. As I have already mentioned, the EC concluded a series of association agreements with a number of MCs. The impact of these arguments has not been interpreted without any controversy.

With reference to the competitiveness of Spanish industry, some observers have concluded that "given that the majority of Spanish exports consists of mature - or intermediate - products, the EEC is undoubtedly Spain's key market. It is for these products that Spain's association agreement with the EEC has probably had the most positive effects. (...) In the case of more advanced products, the fact that Spanish goods today have only a very limited presence on the European market allows one to foresee promising developments. It is legitimate to ask whether it is really in Spain's interest to redirect its export flows from the developing countries toward the Community". (1)

A differentiated framework of the likely effects of Greek accession to the EC has been proposed by Yannopoulos, by classifying industrial sectors into four categories, in decreasing the order of competitive potential. Textiles and clothing and leather

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(1) see J. Sassoon - R. Walker, "Spanish Industrial Growth and International Competitiveness in view of Community Enlargement", in *Lo Spettatore Internazionale*, 4, 1979.

manufactured<sup>goods</sup> have been considered as particularly competitive, whereas the outlook for mechanical, electrical and transport equipment does not seem very positive. On the other hand an uncertain perspective is offered by the chemical and steel industries. (1)

In the case of Turkey opinions vary largely as to the effects of the enlargement of the EC, with conclusions just opposite to those favouring closer or looser links between Turkey and the European Community. (2)

The existing trade agreement between Israel and the EC has been positively evaluated by Gutentag and Shaliv as for the industrial activity, as they believe that the association will cause a "negative import substitution effect" in Israel, which eventually favours an increased interdependence between the two partners, with mutual advantages. This interdependence will be shown by an increase of Israeli imports of many consumer goods as well as those capital goods where economies of scale are relevant; on the other hand Israeli industry presents a number of branches with comparative advantages, which will largely benefit from the wider access to the large markets of the European Community. (3)

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(1) see Yannopoulos, "Sensitivity of Industrial Sectors to Common Market Competition", in "The Mediterranean Challenge: IV the Tenth Member: Economic Aspects", Sussex European Papers 1

(2) see, among others, Cem Duna, "Enlargement of the EEC and Turkey", Europa Institute, University of Amsterdam, 1979.

(3) see N. Gutentag- A. Shaliv, "Changes in the Structure of Israeli Industry Following the Establishment of a Free Trade Area between Israel and the EEC", David Horowitz Institute 1

However, taking into account all MCs and all branches of activity, the effects of the Southern enlargement on those Mediterranean countries that are not candidate to membership are not so clear-cut. If we base for the moment our analysis on the record of trade in the different branches of production, the impression we get is one of very limited impact of different kinds of trade agreements on the industrialization in the MCs. On the contrary agricultural exports towards the large markets of Central Europe may be greatly influenced by the admission of Mediterranean countries in the EC, especially if one takes into account the prevailing protectionist attitude that the EC has always had in its agricultural policy.

As a matter of fact the very nature of the European Community which is particularly (even though not exclusively) a customs union entails a greater importance of trade relationships and their modifications when dealing with the consequences of enlargement.

The general framework of this problem is very peculiar. Foreign trade for the non-EC Mediterranean countries represents about 60% of their global GNP, with strong imbalances which refer not only to the industrial flows, but are considerably dependent on agricultural trade as well.

Most Mediterranean countries are net importers not only for manufactured<sup>goods,</sup> as one would expect in the case of the developing economies, but also for primary agricultural goods.

In order to understand these phenomena, we must remember

the structure of the exports of the developing MCs. They are mainly of three types:

- a) raw materials and energy resources;
- b) Mediterranean agricultural goods;
- c) manufactured commodities (mainly textiles, clothing, shoes, leather).

The enlargement of the European Community does seem to produce immediate repercussions on the trade of primary non-agricultural goods, whereas some sort of consequences are likely to be ascertained for the remaining two kinds of commodities, especially if Spain, Greece and Portugal present similar comparative advantages as the other non-EC nations with reference to most EC members.

Will the non-EC Mediterranean countries increase or decrease their exports to the European Community after the Southern enlargement is completed ?

The answer is not simple, as we must distinguish between agricultural goods and manufactured goods. It is evident that the agricultural exports of MCs (both the EC members and the non-EC countries) are rather similar and compete with each other especially in the Northern Europe. The immediate effect of the enlargement of EC would be the increase of the rate of self-provision of mediterranean agricultural goods<sup>within the EC</sup>, as the new members are import producers of these commodities. This may lead the way to a reduction of external imports of such commodities, with consequent negative effects on the balance of payment of each MC that is not a member of the Community.

These negative consequences have already been the subject

of several debates and negotiations, in order to find feasible solutions which might safeguard mutual interests of Both EC members and the non-EC Mediterranean countries.

On the basis of this kind of analysis, which is based on market-share evolution and trade openings, the industrial development of the non-candidate MCs might very well benefit from enlargement. This conclusion, although seemingly just hypothetical, can be based on the following considerations:

- at present, exports of manufactured goods from the non-candidate MCs represent a very small share of the EEC manufactured imports; therefore the likely increase of manufactured exports from the new members toward the other EC countries would probably damage exports from non-Mediterranean countries (that have<sup>2</sup> much higher industrial export capacity);
- the export potential of the candidate countries is already geared predominantly towards the European Community, and there is little ground to expect considerable trade diversion because of the enlargement;
- there is a clear difference in the level of technological development and manpower training in the candidate countries vis-a-vis the non-candidate MCs. This means that the sectors which will grow faster in the new members (intermediate technology, manufacturing sectors) are likely to be "out of reach" for the others (this fact is not necessarily true, as I will explain later);
- the enlargement will stimulate an increase in the cost of

labour for the new members of the EC which will enhance the competitive position of the non-candidate Mediterranean countries (even though wage differentials may be less important in determining the distribution of the comparative advantages in the Mediterranean area);

- the new members of the Community will be obliged to adopt the Common External tariff, which is lower than their national tariffs. From this a trade creation effect might derive in the whole Mediterranean region.

Problems may arise from a likely situation of overcapacity in the new sectors where the non-candidate Mediterranean countries wish to specialize. But to reach such conclusions we need a deeper analysis of the factors which determine the dynamics of all the relations of the macro-region "EC-Mediterranean".

In fact the above-mentioned arguments are mostly based on the record of trade and do not consider what is changing in the pattern of competitive potential in the Mediterranean area. As a matter of fact the abolition of trade limitations which is consequent to the accession to the EC does seem, at least in the industrial framework, to have but a limited impact on the growth paths of the MCs, and that should hardly come as a surprise, in a world where tariffs have long ceased to be the most important issue in international economics.

However the above conclusions on the effects of the Southern enlargement of the European Community are still important, especially for agricultural products and a few

industrial sectors such as textiles and clothing, and downstream petroleum products.

At all events, the relations of the European Community and the Mediterranean area cannot be confined to the immediate trade effects of the enlargement of the EC, but must involve a number of additional issues which involve the whole setting of the dynamics of the relationships between West Europe and all countries which pertain to what I consider as Mediterranean regions.

#### 5. Recent dynamics of productive potentials in the Europe-Mediterranean area

The external relations of the European Community cannot be confined to the Mediterranean area. This is why a possible trend of specialization in the industrial activity in Europe should not be confronted only with factors affecting the Mediterranean reality, but also with more general tendencies of all industrial countries, namely North America and Japan.

During the last decade the transformations of the international economy have not been parallel and of equal intensity in all industrial systems. This means that differences in competitiveness may have arisen between regions and between countries, which could enlighten the economic perspectives of the future.

This is certainly true for the relations between the European Community and the United States, for which it has been estimated that there has been a marked increase of competitiveness and/or a reduction of complementarity in most industrial branches. As for the relations between the EC and Japan, the conclusions are more diversified, as the competitiveness is increasing in a few sectors, such as the chemical one, whereas it is decreasing in favour of a larger complementarity in the mechanical sector and all the newer industrial branches.

If we analyse the recent trend of market shares for industrial trade of the greater OECD regions, it is possible to conclude that there has been an almost general situation with negative results for the European industry, often in coincidence with an improvement of the American share. This is particularly true for chemical exports, semi-manufactured goods (which are far more important for the European economy than for the American and the Japanese economies). These negative results can be noticed also in other sectors, such as textiles and steel production (where the Japanese share has increased). In the mechanical sectors the superiority of the American industry is remarkable, with just a few exceptions, whereas in the electro-mechanical and electronic industries the European Community is losing with respect to Japanese industry, as has happened in the automobile sector as well.

As for the mature industrial activities, the EC represents



a much higher share of the whole international market than the American and Japanese partners, which explains the position of the European Community in the confrontation with the new pressure from the NICs' economies. These negative trends for almost all the industrial sectors, in absolute terms are not very large, but nonetheless are still important.

As a matter of fact European industry is suffering from a reduction of its marketing capacities especially in capital goods exports, whereas the consumer goods sectors continue to maintain high standards of market shares.

This general framework for the European industrial situation corresponds to an increased share of the European industrial imports which are originated from developing countries, with a really wide range of commodities which includes many consumer goods, some intermediary products and a few selected sub-sectors of the mechanical and electrical industries.

In the meantime a number of dynamic factors are preparing a new base for a continuing industrialization process in the Mediterranean area which is not irrelevant for European industry as a whole. We all know that every MC is pursuing an industrial policy which will bring together domestic and foreign forces. These processes of industrialization have not arisen only in recent years, but even in those countries which already have a rather considerable industrial infrastructure, there are new conditions today which merit reconsideration of the

role of industrial development in the Mediterranean and its relations with the industrialized world (namely with the European Community).

The main factor causing changes in the sectoral dynamics of the industrial division of labour in the area is oil. Potentially one might conceive of a space for new producers in the Mediterranean area necessitating reconversion of industrialized economies in order to be consistent with energy-based industrialization of less developed MCs. This process may well be helped by the growing intra-regional financial intermediation which can be permitted by the new typical regional sources such as the Arab banks which are enlarging their operations regionally, in addition to the activities of the usual international banks in the area.

In the past, the virtually absolute isolation of the oil sector from the rest of the OAPEC economies - encouraged by the ownership structure as well - prevented these economies from fostering any industrialization process based on oil, as the comparative advantage of oil extraction over all other sorts of industrial investment was such as to inhibit diversification policies. But changes in ownership first, and the sudden redistribution of income produced in the seventies by the higher prices of oil stimulated new interest in industrialization of developing MCs.

And this interest involves not only oil MCs, but also other emerging nations of the Mediterranean area.

Entrepreneurial capacities and manpower skills will be major issues as for the feasibility of this perspective: as for the former the dominant role of public enterprise in implementing industrial policy must be emphasized in most MCs. But there is room also for a significant role of the private sector as well; especially in the development of small and medium sized industry. As for manpower resources, MCs are very heterogeneous, some with manpower surpluses, others with a marked lack of native population calling for immigration to maintain an accelerated growth rate.

However an evolution of the industrial pattern of the Mediterranean area of this kind will not be so clear-cut: contrasting pressure will be put on the localisation processes of new industrial activities, both in the more industrialized Mediterranean countries and in oil producing countries. In any case this downstream industrialization will eventually entail industrializing effects on the surrounding society.

As a matter of fact energy-based industrialization represents a complete solution only in the scantily populated MCs. In all the remaining MCs, employment policy and a growing domestic demand entail a more sophisticated and diversified approach to industrialization.

I would not dare to conclude that these trends are producing a radical change in the international division of labour in the short run, even with reference to the energy-based industries. The industrial strategies devised by the MCs are highly complex, not always leading them to straight-forward interpretation.

The above-mentioned dynamic factors have not yet managed to produce substantial modification of the specialization in the Mediterranean area, even though in a few cases (such as the petro-chemical industry), a gradual penetration in the international market has been shown by the new Mediterranean producer

Changes in the transportation systems of both oil and gas, and fluctuations of oil prices will probably determine the balance between advantages and drawbacks of redeployment of energy-based industries between the different regions bordering the Mediterranean.

Let us consider the example of the petrochemical products: decentralization in oil MCs is not a one-way process: even though the availability of raw materials and financial resources are favorable factors for redeployment from industrial countries (namely Western Europe) to oil economies, higher costs of production and potential difficulties in international marketing have a negative influence. Entry of oil producers into the petrochemical field is often limited to the earlier stages of production, i.e. basic processing, leaving further downstream processing to industrialized economies, as it is highly demanding in terms of technological capability.

On the other hand we cannot exclude the possibility of having an export-led industrialization based on redeployment of labour-intensive processes (as is the case in Tunisia and Morocco) in those MCs with larger population, even though this pattern of industrialization is not typical of the Mediterranean area.

However we must recognise that the objective of diversifying exports away from oil - as is the case in OAPEC economies - is often set up as a long-term goal, whereas in the short run productive facilities are sometimes installed with capacities limited to meeting modest domestic demand. One of the most crucial problems for the new industrialization processes is still that of marketing the new products abroad.

But the alternative cannot be just between export-led or import-substitutive industrialization, as a trade-off of this kind might just lead to either conflictual solutions or large inefficiencies in the new industrial enterprise. The markets for the new manufactures established by the developing MCs cannot exploit the existing comparative advantages and the economies of scale if they are limited just to the domestic dimension. On the other hand, an aggressive export-led policy mainly oriented towards the European markets would eventually lead to a defensive attitude of the European governments. A regional approach must be followed in order to by-pass this inconvenience.

#### 6. Conflicts and options for interregional co-operation

The scenario of relationships between Europe and the Mediterranean that I have just tried to depict entails both dangers of conflict and opportunities for co-operation within this macro-area. Apart from the political dimension of this trade-off, the economic evolution of the area involves

inevitably a number of modifications to the dynamic comparative advantages among the various regions which border the Mediterranean Basin.

As for the agricultural trade, as I have already mentioned a conflictual situation has been caused by the competition between the EC Mediterranean countries and the non-EC ones. On the other hand it must be recognised that most MCs present a marked deficit in ~~their~~ agricultural trade balances, which is clear evidence of a prevailing disequilibrium in the agricultural structure of most MCs. Food consumption, at domestic level is only partially supported by local production, and this entails heavy dependence on agricultural imports. Room for co-operation is consequently possible in forms which are not necessarily limited to a mere market-sharing of export-crops in the EC, but could lead the way also to a sort of reconversion of <sup>the</sup> present agricultural structures of many MCs. A similar perspective would lessen the pressure on the conflicting trade relations, while creating new opportunities for food self-reliance of the MCs.

As for the industrial activities, the outcome will depend on the total installed capacity in some crucial sectors. There are at least two sectors in which the EC maintains a protectionist stance and are crucial to industrialization in the Mediterranean. These are textiles and clothing, and the energy-based industries.

In textiles and clothing the European position is conditioned by the importance of this sector in many member countries

especially the European MCs. The contrast is particularly marked with the cotton producing countries such as Turkey, Syria and Egypt, and those which have abundant labour supply (i.e. Tunisia, Morocco).

In the case of the energy downstream industrialization, the protection is less stringent, and it is more likely to be reduced in <sup>the</sup> face of determined action on the part of the oil exporting countries. At the same time, it is easily seen that the process of redeployment of industrial activity in the Mediterranean area would be considerably smoothed if a "cooperative" scenario could be enhanced within the area.

Altogether new steel and petrochemical capacities in the MCs other than EC members represent a menace for the Western European countries which are already strongly present in these branches. This means that an industrialization of this kind could take place only if there were a shift of such activities to the developing MCs, with a simultaneous liberalization by the EC, as well as other industrialized economies.

The feasibility of this gradual redeployment process will depend on a number of factors which are both political and economic. I have already mentioned the influence of the political variables at the beginning of this paper; it is worth to mention here the importance of a cooperation framework as an indirect means for solving political conflicts at their earliest stages.

This is not to say that any technical assistance or financial support could find solutions to mere political problems in the Mediterranean area, but a solid cooperation policy of the European Community in favour of the developing MCs will represent a useful framework to reduce the dimension of these political conflicts through a serious attempt to satisfy social needs in the less advanced economies of the area. Given the global situation of any interregional system all over the world, this European potentiality, together with a willingness to an open debate from all countries involved in the area, represents the only example in the world of a feasible interregional scheme for co-operation.

However a final remark must be remembered now: development of the Mediterranean area is strongly dependent on the success of the integration processes in the area. As far as Arab economy integration spurs development and welfare, European partners will find it convenient to enlarge their efforts to participate in the development policies of the MCs. The same is true in a reverse context. European integration will be highly influenced by the capability to enhance a growing perspective within the European economy. Only an improving situation for all EC economies could allow for a better relationship with the remaining Mediterranean countries. The recession of the European economies, which has caused (as I mentioned before) a slowdown of integration within Europe, cannot help damaging the Mediterranean prospects for industrialization and social development. In conditions of rising demand it will be easier for the European economies to make the needed



production adjustments gradually, through a subsequent deployment of some energy-intensive activities to the developing MCs, just as it will be possible to benefit mutually from the creation of new market-oriented manufacturing plants in a more decentralized Mediterranean industrial pattern.

