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# The Mediterranean Policy of the EC – The Case of Industry

by Guido Ashoff, Wilhelm Hummen, Berlin\*

**The European Community faces the task of reformulating its Mediterranean policy in the light of the rather disappointing experience with the “Global Mediterranean Policy” adopted in 1972, the effects of the southward enlargement of the Community and the changed world economic climate. The article that follows discusses the experiences to date, the scope for action and possible guidelines for a future Mediterranean policy in the industrial sphere.**

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The European Community allows Mediterranean countries<sup>1</sup> free market access for industrial products on the basis of the Generalised System of Preferences (GSP) that applies to all developing countries and/or under bilateral agreements of various kinds (see Table 1). Whereas the trade liberalisation measures under the GSP have applied since 1st July 1971, most of the bilateral agreements did not come into force until the second half of the seventies, when the economic climate was already beginning to deteriorate. They are more comprehensive than the GSP and place the EC's trading partners in a preferential position because they include more generous trade provisions<sup>2</sup> and arrangements for financial and economic co-operation.

There are two important exceptions<sup>3</sup> as far as free access to the EC market is concerned. First, neither the GSP nor the bilateral agreements exempt products of the agro-industry from customs duties, and secondly the EC has imposed quantitative restrictions on imports of sensitive textiles and clothing from most Mediterranean countries since 1978-79.

The European Community has foregone reciprocal trade concessions and agreed to apply the most favoured nation clause in its agreements with the Maghreb and Mashreq countries (because of their low level of industrialisation) and with Yugoslavia (an associate member of Comecon). On the other hand, the agreements with Israel, Malta, Cyprus and Turkey provide for reciprocal trade liberalisation. Israel must liberalise her imports of industrial goods from the EC by 1985, with the possibility of postponing the deadline until 1989. In the Additional Protocol of 1970 Turkey undertook to reduce her customs tariffs on goods from the EC by 1985 or 1995, in most cases the latter, and at

the same time to adopt the Common Customs Tariff of the Community (CCT). Malta and Cyprus have so far reduced their import duties by 30 % of their original level. The planned second stage, at the end of which customs union with the EC should have been achieved, has been postponed several times; it remains an open question whether and when it will begin.

The EC has granted each of these four countries the possibility of introducing new duties to protect “infant industries”. This and the fact that the countries in question have only partially reduced their duties so far lead one to conclude that reciprocity is still a long way off. Hence at present it would still be wholly incorrect to speak of an industrial free trade area between the EC and the Mediterranean countries, which was originally the ultimate objective.

## Intensification of Trade

The trade policy section of the agreements between the EC and the countries of the Mediterranean is designed to achieve a more intensive and better balanced exchange of trade. Indeed, during the seventies all the Mediterranean countries increased their exports of industrial goods to the EC, although it

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<sup>1</sup> The examination that follows disregards Greece (now a member of the EC), Portugal and Spain as future members of the Community and considers them only from the point of view of the effects of the southward enlargement.

<sup>2</sup> Under the GSP (unlike the bilateral agreements) the granting of preferences is fundamentally limited by tariff quotas, which also affected certain Mediterranean countries (particularly Yugoslavia) before the conclusion of the bilateral agreements. In addition, the bilateral agreements contain more generous rules of origin than the GSP – cumulative origin in the case of the Maghreb countries, bilateral cumulation with almost all countries.

<sup>3</sup> A third exception relates to oil, natural gas, phosphate and aluminium products and a few other products for which most of the agreements established tariff quotas (set to expire at the end of 1979) or on which no tariff reduction was granted (Malta, Cyprus). However, these provisions had no practical significance owing to the small volume of exports.

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must be said that the importance of the Community as a market differs from one country to another.

The exports of Morocco, Tunisia and Turkey are very strongly oriented towards the EC (almost 70 % in 1980). An even larger share of Malta's exports went to the Community – 80 % in 1980 – but the proportion scarcely altered in the course of the seventies. Cyprus, Egypt and Israel constitute a second group; the EC was taking about 35 % of their exports towards the end of the last decade. By contrast, the EC share in the exports of Algeria and Yugoslavia showed an unexpected decline during the seventies. No conclusions can be reached with regard to Jordan and Lebanon in view of the smallness of their exports to the Community.

An intensification of trade is also evident on the imports side of the EC – the Mediterranean countries' share in EC imports from both non-member countries

and developing countries has increased. The low volume of trade must be taken into account, however, as barely more than 1 % of the EC's imports of industrial goods comes from Mediterranean countries. Algeria and Yugoslavia saw their share of EC imports decline.

The growing regional concentration of the exports of the Mediterranean countries on the EC and the simultaneous increase in their share of EC imports are probably not just the consequence of the dismantling of tariff barriers by the Community, for the other developing countries have also been granted tariff concessions under the GSP. The shift of production in the textile and clothing industry from the EC to a number of Mediterranean countries (either by means of direct investment or "outward processing" by local firms) has also contributed to the regional concentration of exports and factors such as their relative proximity to the market have also played a part.

### Increasing Imbalances

By contrast, the agreements have largely failed to achieve their other trade policy objective, namely the encouragement of balanced trade relations. The Mediterranean countries' trade deficit in industrial products vis-à-vis the EC has grown rapidly and in 1980 was several times the size of their exports to the Community. Although in Algeria, Egypt and Syria it rose to almost ten times the value of these exports Israel managed to hold her deficit down to the level of her EC exports; only Malta achieved a clear reduction. These results show that the agreements' objective of balanced trade relations was very ambitious. Nevertheless, the size of the trade deficits is not surprising, given the different levels of industrialisation of the contracting parties and the fact that the Mediterranean countries have taken up the Community's offer of trade liberalisation only within a narrow field of specialisation.

In trade<sup>4</sup> with the EC most Mediterranean countries have specialised in light industrial products, especially textiles and clothing, leather goods and footwear, travel goods and, in the case of some countries, wood and cork. Only Israel's exports to the EC also show some specialisation in metal manufactures in addition to the products listed above. None of the countries has yet been able to specialise in the capital goods sector; they continue to be heavily dependent on supplies from abroad, especially from the EC.

Table 1

#### Free Access to EC Market for Industrial Products from Mediterranean Countries: Commencement Date and Legal Basis

Free Access to EC Market since	Countries	Legal Basis	Commencement of Tariff Reduction Leading to Free Market Access
1. 7. 1968	Greece	Association Agreement of 1961 (Protocol No. 6)	1. 11. 1962
1. 9. 1969	Morocco Tunisia	Association Agreements of 1967	—
1. 7. 1971	Maghreb Mashreq Libya Cyprus Yugoslavia	Generalised System of Preferences	—
1. 9. 1971	Turkey	Association Agreement of 1963 (Additional Protocol of 1970)	—
1. 7. 1976	Portugal	Free Trade Agreement of 1972 (Additional Protocol of 1976)	1. 4. 1973
1. 7. 1976	Maghreb	Cooperation Agreements of 1976	—
1. 7. 1977	Israel	Free Trade Agreement of 1975	1. 10. 1970 <sup>a</sup>
1. 7. 1977	Mashreq <sup>b</sup>	Cooperation Agreements of 1977	— <sup>c</sup>
1. 1. 1978	Malta	Association Agreement of 1970 (Additional Protocol of 1977)	1. 4. 1971
1. 6. 1978	Cyprus	Association Agreement of 1972 (Additional Protocol of 1977)	1. 6. 1973
1. 7. 1980	Yugoslavia	Cooperation Agreement of 1980	—
(1. 1. 1973: Spain reduction of CCT by 60 %)	Spain	Free Trade Agreement of 1970	1. 10. 1970

Notes: Maghreb: Algeria, Morocco, Tunisia; Mashreq: Egypt, Jordan, Lebanon, Syria.

<sup>a</sup> Under preferential trade agreement of 1970; <sup>b</sup> Lebanon: 1. 8. 1977;

<sup>c</sup> reduction of CCT vis-à-vis Egypt by 45 % after 1. 3. 1973 and by 55 % after 1. 1. 1974 under preferential trade agreement of 1972.

<sup>4</sup> Some studies undertaken from the production angle arrive at more varied conclusions. According to these, the structural differentiation of industry in Algeria, Tunisia, Turkey, Yugoslavia and Israel is much further advanced than in the other countries but is not yet reflected in the structure of exports.

The specialisation in light industrial goods increased markedly during the seventies, so that in many Mediterranean countries these products came to account for more than 70 % of their total exports to the EC. The growth was less pronounced in textiles and clothing – these countries already had a large share of the market at the beginning of the seventies – but substantial in the case of leather goods, footwear and travel goods. These lines were considerably expanded and quickly became highly competitive in international markets. By contrast, exports to the EC by Algeria, Syria, Jordan and Lebanon show no marked trend towards specialisation.

### Financial and Economic Co-operation

The Community's agreements with the Mediterranean countries also comprised financial protocols to foster the industrial and social development of these countries (see Table 2). At the beginning of 1982 new protocols were concluded with most of the countries concerned in which the ratio between EC budget resources (for granting subsidies) and loans from the European Investment Bank (EIB) was changed markedly for the worse.

Under both the old and the new protocols the distribution of financial resources clearly did not depend solely on economic criteria. Although the bulk went to Egypt and Morocco, countries with the lowest per capita income, Algeria was also given preferential treatment in spite of the fact that it belongs to the group of countries with the highest per capita income in the region. Nor does the criterion of financial aid per head of population

suffice to explain the regional distribution of resources. On this basis, Malta and Cyprus received disproportionately large amounts.

Some of the states to which EC Mediterranean policy relates receive substantial development aid. The financial aid granted by the EC is well below not only that of the USA but also the bilateral official aid of EC member states and it is continuing to fall behind. The EC financial protocols are therefore of only limited importance in the context of overall development aid to Mediterranean countries. Furthermore, the lengthy ratification procedures in EC countries have delayed application of the protocols and thus further diminished their effectiveness.

The bulk of the financial resources has gone into infrastructure projects and has had a positive indirect effect on industrial development. In some countries funds have been used to nurture the energy sector. Only a small amount has flowed into the industrial sector directly. A particular problem arose as a result of the EIB's practice of investing funds only in branches of industry that are not sensitive within the Community. This lending practice totally ignores the fact that support is thus being denied to branches of industry in which some of the Mediterranean countries still have considerable potential for import substitution. The exclusion of these industries from eligibility for loans is therefore questionable from the point of view of development policy.

Bilateral financial co-operation between member states of the EC and Mediterranean countries increased

**Table 2**  
**Financial Protocols of the EC with Mediterranean Countries**  
(in Millions of EUA)

	First Protocol			Second Protocol			Popula- tion	Per Capita GNP	Financial Aid per Cap.	
	Budget	EIB	Total	Budget	EIB	Total			First Protocol	Second Protocol
Algeria	44	70	114	44	107	151	18.2	1,580	6.3	8.3
Morocco	74	56	130	109	90	199	19.4	740	6.7	10.3
Tunisia	54	41	95	61	78	139	6.2	1,120	15.3	22.4
Egypt	77	93	170	126	150	276	40.9	460	4.3	6.7
Jordan	22	18	40	26	37	63	3.1	1,180	12.9	20.3
Lebanon	10	20	30	16	34	50	3.1	—	9.7	16.1
Syria	26	34	60	33	64	97	8.4	1,070	7.1	11.5
Israel	—	30	30	—	40	40	3.8	4,170	7.9	10.5
Malta	16	10	26			n.a.	0.35	2,640	74.3	n.a.
Cyprus	20	10	30			n.a.	0.65	2,940	46.2	
Turkey <sup>a</sup>							44.2	1,330		
Yugoslavia			200 <sup>b</sup>				22.3	2,430		

<sup>a</sup> Turkey received the following financial aid: 175 million EUA in 1964, 210 million EUA in 1970, 310 million EUA in 1979 and 600 million EUA in 1981.

<sup>b</sup> Provisional figures.

Source: EC Commission.

during the seventies.<sup>5</sup> The scale of finance from some individual EC countries declined sharply in comparison with the financial transfers from the USA. The regional distribution of bilateral aid also changed. Compared with 1970, priority shifted from Algeria, Israel, Tunisia and Yugoslavia in favour of Egypt, Morocco and Turkey. This shift is to be considered a positive development in the light of the country distribution of per capita income.

The agreements concluded by the EC Commission with the Maghreb and Mashreq countries in particular belong to the new type of treaty that aims to bring about an intensification of economic co-operation as well as trade and financial agreements. They have not, however, had a significant impact on the investment activity of EC companies in the Mediterranean countries. Direct investment from the EC (which predominates over that from other countries) is not showing a rising trend and, moreover, is subject to sharp fluctuations. Measures in the field of scientific and industrial co-operation have been modest so far and at most represent a first step in an area that will assume greater importance in the future.

### Sensitive Industrial Products

The "Global Mediterranean Policy" has fallen into disrepute with the EC's counterparts, partly because the contractually agreed free access to the Common Market has been subsequently denied to the very industrial goods that are of greatest importance to the Mediterranean countries. Since 1978 the EC's global textile import policy within the framework of the Multifibre Arrangement (MFA), which provides for possible quantitative import restrictions, has been extended to a series of Mediterranean countries even though most of them are not signatories to the MFA<sup>6</sup> and

the bilateral agreements establish no legal basis for import controls apart from the general safeguard clause.

The EC found itself faced with the problem of reconciling the overall stabilisation of imports of sensitive textile and clothing products<sup>7</sup> as a means of protecting the Community's own crisis-hit industry with its contractual obligations towards Mediterranean countries, which are not to be neglected as suppliers.<sup>8</sup> By using the argument that the safeguard clause could be invoked if necessary (as occurred in some instances in 1977 and 1978), the EC persuaded the principal textile supplying countries in the Mediterranean to conclude informal self-limitation arrangements<sup>9</sup> which were initially valid until 1981/82 by analogy with the Second Multifibre Arrangement but have since been extended until 1983/84 or 1986 (see Table 3).

No restrictions apply to Algeria, Jordan, Lebanon and Syria, which are marginal suppliers, or to Israel, which is no longer considered a low-cost country. As Turkey declined to enter into an informal self-limitation arrangement (except for 1978), the Community imposes unilateral import restrictions and minimum prices on that country.

<sup>7</sup> Sensitive products are those which are subject to import restrictions or the threat of restrictions by reason of the crisis in the EC. The Mediterranean countries (excluding the acceding states) are affected only insofar as textiles and clothing are concerned. They are only marginal suppliers of footwear, to which the EC (as yet) applies no common policy of import restriction. The same goes for petrochemical products; the refining capacity of Mediterranean countries has increased, it is true, but it is seriously underutilised and is still relatively insignificant in comparison to that of the EC or other countries. Where steel is concerned the Mediterranean countries are also marginal suppliers and in any case under the bilateral (ECSC) agreements they are committed to respecting the EC price level. The EC has no common trade policy with regard to shipbuilding.

<sup>8</sup> In 1980 the Mediterranean countries (excluding the acceding states) supplied 11.6 % of imports of textiles and clothing (SITC 65 + 84) from outside the EC; cf. O E C D : Trade by Commodities 1980.

<sup>9</sup> "Joint action memoranda", "verbal notes of understanding" and "exchange of letters" whereby the EC agrees not to invoke the safeguard clause and the Mediterranean countries undertake not to exceed certain import ceilings (quotas). The quotas were generally determined on the basis of the imports for 1977 plus stated annual rates of increase.

<sup>5</sup> Cf. O E C D : Geographical Distribution of Financial Flows to Developing Countries 1977-1980, Paris 1981.

<sup>6</sup> The only Mediterranean countries to have signed the MFA are Egypt and Yugoslavia, with which the EC has consequently also concluded formal MFA self-limitation agreements.

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Three points must be taken into consideration in assessing the EC import restrictions: the importance of exports of textiles and clothing to the EC for the exporting countries, the treatment of Mediterranean countries by the EC in comparison with that of other low-cost suppliers and finally the actual effects of the import quotas.

□ The EC is the most important market for the textile and clothing exports of Tunisia (94 %), Morocco

(85 %), Malta (85 %), Turkey (78 %) and Cyprus (45 %), while Yugoslavia and Egypt sell mainly to Comecon (EC share 25 % in each case). The strong EC orientation is partly the result of production having been transferred from the Community to Mediterranean countries (outward processing) through direct investment or co-operation with local firms, mainly in Tunisia, Malta and Morocco but also in Yugoslavia. Textile and clothing exports to the EC accounted for

**Table 3**  
**Conditions of Access to EC Market for Imports of Textiles and Clothing from the Mediterranean Countries**

Countries	Tariffs (1983)	Quantitative Restrictions				Others
		Before 1982	Type	From 1982	Type	
<b>Maghreb</b>						
Algeria	—	—	—	—	—	—
Morocco	—	78-81	A	82-84	A	—
Tunisia	—	78-81	A	82-84	A	—
<b>Mashreq</b>						
Egypt	—	70-73	B	82-83 <sup>a</sup>	A	—
		74-77	B	83-86	B	—
		78-82	B			
		80-81 <sup>a</sup>	A			
Jordan	—	—	—	—	—	—
Lebanon	—	—	—	—	—	—
Syria	—	—	—	—	—	—
<b>Other Countries</b>						
Cyprus	tariff ceilings <sup>b</sup>	79-81 <sup>c</sup>	A	82-83 <sup>c</sup>	A	—
Israel	—	—	—	—	—	—
Malta	tariff ceilings <sup>d</sup>	79-81	A	82-83	A	—
Turkey	reduced tariffs <sup>e</sup>	78	A	82	C	minimum prices for cotton yarn (otherwise: anti-dumping tariffs)
		79-81	C			
Jugoslavia	tariff ceilings	73-77 78-81	B	82-86	A/B	
<b>Acceding Countries</b>						
Portugal	—	78-81	A	82-83 84-86 <sup>f</sup>	A A	— —
Spain	av.4.1 %	78-81	A	82-83 <sup>f</sup>		—
(Greece)	—	78-80	A	—	—	possible resort to safeguard clause during transition period

Notes: Type A: Informal self-limitation arrangements ("verbal notes", "joint action memoranda", "memoranda of understanding", "exchange of letters").

Type B: Formal self-limitation agreements (concluded in the framework of the Multifibre Agreement).

Type C: Quotas unilaterally imposed by the EC.

<sup>a</sup> For cotton yarn. <sup>b</sup> Duty-free tariff ceilings for items 56.06 and 61.01 according to Additional Protocol of 1977. <sup>c</sup> Quotas refer to UK only. <sup>d</sup> Duty-free tariff ceilings for items 55.05, 55.09, 56.04, 60.05, 61.01 according to Additional Protocol of 1977. <sup>e</sup> CCT reduced by 75 % applicable to items 55.05, 55.09, 58.01 (to be abolished by 31. 12. 84). <sup>f</sup> 1982-83: quotas; the quotas will be extended for a period of three (possibly four) years after accession to the EC (including annual increases at different growth rates); similar regulations are to be expected in the case of Spain.

Source: Compiled from information provided by the EC Commission.

10 % or more of the countries' total worldwide merchandise exports in the case of Morocco (10 %), Turkey (15 %), Tunisia (18 %) and Malta 43 %).<sup>10</sup> The EC's textile import policy is therefore of great importance to these four countries.

□ By comparison with the formal self-limitation agreements that the EC has concluded with other developing countries within the framework of the MFA, the informal arrangements with the Mediterranean countries demonstrate the Community's intention to give them preferential status even within the global policy of import restrictions. The most important (relative) advantages enjoyed by the Mediterranean countries are (a) more generous flexibility clauses for

the transfer of quotas to other years or other product categories; (b) special quotas for imports of outward processed products; (c) no predetermined quotas for textile imports in small quantities (no "basket extractor mechanism"); (d) higher annual quota increases: whereas the MFA countries and the state-trading countries had to accept absolute cuts in their quotas in 1983 in comparison with 1982, the Mediterranean countries were granted increases; for the period up to 1986 the rates of growth in the quotas for Mediterranean countries are as a rule 1.5 times those for other countries. Taken overall, the prospects for Mediterranean countries in the EC market are therefore being improved in relation to those of other low-cost suppliers as a very consequence of the EC's protectionist import policy.

<sup>10</sup> Cf. U N : Commodity Trade Statistics 1979 (for the countries in question).

**Table 4**  
**Share of Products Probably Affected by EC Quotas<sup>a</sup> in Total Imports of Textiles and Clothing into the EC from the Country in Question, 1981**  
(%)

Categories 1 – 8 (Group I) <sup>b</sup>	Morocco		Tunisia		Egypt		Cyprus <sup>c</sup>		Malta		Turkey		Yugoslavia		Portugal		Spain	
1 Cotton yarn	no quota		no quota		22.6		no quota		0		39.8		3.6		2.9		8.0	
2 Cotton fabrics	no quota		2.8		5.0		no quota		0		1.2		3.0		1.2		1.7	
3 Synth. fabrics	no quota		no quota		no quota		no quota		0		no quota		0.1		0		no quota	
4 T-Shirts	0		0.6 <sup>d</sup>		no quota		0.5		0		2.3		0		10.5		0	
5 Sweaters	0		no quota		no quota		no quota		0		no quota		1.7 <sup>e</sup>		7.3		no quota	
6 Trousers	14.1 <sup>d</sup>		22.0 <sup>d</sup>		no quota		7.2		4.0		no quota		6.9		3.0		10.1	
7 Blouses	1.3 <sup>d</sup>		2.6 <sup>d</sup>		no quota		9.5		0		0.1		3.4		2.1		no quota	
8 Shirts	6.6 <sup>d</sup>		5.1 <sup>d</sup>		no quota		0		0		no quota		9.3		4.7		no quota	
Further Categories	Cat. No.	%	Cat. No.	%	Cat. No.	%	Cat. No.	%	Cat. No.	%	Cat. No.	%	Cat. No.	%	Cat. No.	%	Cat. No.	%
	12	0	21	1.1 <sup>d</sup>			26	13.9			26	0.9	9	0.4	20	7.7 <sup>e</sup>	13	1.7
	16	0	26+27	0			76	0					12	0	33	0	20	0.6
	23	0											15 B	n.a.	22	1.7		
	26	0											18	0				
	27	0											24	0				
													25	0.7				
													48	0				
													52	0				
													67	0				
													73	0				
Total(%)	22.0 <sup>d</sup>		34.2 <sup>d</sup>		27.6		31.1		4.0		44.3		35.6		38.9		23.8	
Memorandum item: total EC imports of textiles + clothing (millions of ECU)	172.5		323.3		172.3		29.8		145.5		484.1		425.3		645.8		391.9	

<sup>a</sup> All imports to the member countries of the EC that amounted to at least 75 % of the quota(s) of one or more individual EC country; for further explanation: see text. <sup>b</sup> Ultra-sensitive products. <sup>c</sup> 1980 (quotas refer to UK only). <sup>d</sup> In the case of Morocco and Tunisia, quotas were open to normal imports and outward processing imports (TPP), the latter being calculated at 33.3 % of normal imports. As the available statistics do not differentiate between normal and TPP imports, for the purpose of the present calculations all imports reported by the statistics have been considered as normal imports; the true percentages may therefore be lower or even nil. <sup>e</sup> The shares are based on normal quotas (distributed among the EC member countries); additional TPP quotas could not be taken into account for lack of information on their regional distribution within the EC; the true percentages may therefore be lower or even nil.

Source: Own calculations (quotas: information provided by the EC Commission; imports: Eurostat, Modul SCE-2510, 1981).

□ The extent to which the informal self-limitation arrangements have actually prejudiced the textile and clothing exports of the countries concerned can be gauged only in broad terms. The following attempt to quantify the possible effects indirectly is based on the assumption that the existence of EC quotas has adversely affected the export planning of firms in supplying countries only where more than 75 % of the ceiling has been filled.<sup>11</sup> The scale of these possible negative effects can be illustrated if the imports of those product groups for which more than 75 % of the quotas were actually filled are expressed as a percentage of the EC's total textile and clothing imports from the country in question. The results of these calculations for 1981, which are summarised in Table 4, allow the following conclusions to be drawn:

Morocco and Tunisia (see note d to Table 4) and Malta were only marginally affected by the quotas and will have no major problems under the self-limitation arrangements up to 1983 or 1984, respectively in view of the present levels of utilisation and the planned increases in quotas. The quotas for Egypt (only on cotton yarn and cotton fabrics) and Yugoslavia probably had a restrictive effect in 1981; the MFA agreements concluded with these two countries for the period to 1986 provide for only modest rates of increase in the quotas, so that a restrictive impact must continue to be expected, provided that competitiveness can be maintained or increased. The EC is not the main market of either country, however. In the case of Cyprus quotas apply only to exports of clothing to the United Kingdom; they probably did have a restrictive effect and are likely to continue to do so as long as concentration on the British market persists. Turkey shows the highest proportion of products "probably affected": 44 %; this relates solely to cotton yarn. In view of the sensitivity of this product and Turkey's low price level, further restrictions are to be expected, particularly if the country

raises its low capacity utilisation rate (58 % in 1980). Overall, the restrictive textile import policy of the EC gives cause for particular concern only with regard to Cyprus and Turkey (in view of the strong orientation towards the Community).

### Effects of Southward Enlargement

Viewed in static terms, the Mediterranean countries will suffer no adverse effects bar one in the industrial field, as opposed to agriculture, as a result of the southward enlargement of the European Community, since Portugal has enjoyed free access to the EC market in industrial products for some years already, as did Greece before her accession. All that the EC now applies to Spain is the CCT reduced by an average of 57 %; as the tariffs amount to only 3.3 % on the arithmetic mean<sup>12</sup>, their removal is not expected to have a significant diversionary effect on trade. Conversely, after the transition period the Mediterranean countries will gain free access to the markets of the acceding states. However, over the longer term it cannot be ruled out that the EC will introduce further import restrictions against non-member countries, possibly at the instigation of the acceding countries or under the pressure of supply from these members.

The exception mentioned above, which is already significant, concerns textiles and clothing, for upon the accession of Spain and Portugal the removal of the quantitative restrictions that the EC currently applies to these countries' exports of such products could lead to fiercer competition in the EC market or to tighter import restrictions on non-member countries. The following points have to be taken into account in estimating the probable effects on the Mediterranean countries:

□ The acceding countries are important suppliers of textiles and clothing to the EC and will therefore influence the market situation,<sup>13</sup> particularly as the EC quotas for Spain and Portugal have probably had a fairly pronounced restrictive effect up to now (see Table 4), so that their removal may trigger additional exports to the EC.

□ On the other hand, Portugal (and perhaps Spain too) will not be granted free access to the EC market in textiles and clothing immediately after accession. After difficult negotiations, Portugal has accepted that the EC will continue to apply quotas for a period of up to four

<sup>11</sup> This assumption rests on the following considerations. The indicator of the effects of the quotas is the degree to which they are taken up by the supplying countries. As the EC quotas are divided into quotas for individual EC member states, the utilisation of each EC country quota must be determined. It should be borne in mind that quotas can actually impede imports even when they are not fully taken up if firms in the supplying countries limit their planned exports from the outset in view of the existence of the quotas and out of fear that they will be fully utilised, in other words that the EC may impose an import ban. However, this does not seem a very likely occurrence where less than 75 % of quotas are filled. This threshold is somewhat arbitrary, but it is justifiable if one considers that the Mediterranean countries have now had several years' experience of EC quotas and that if their own administration is efficient – apportionment of the quotas among exporters is the responsibility of the authorities in the supplying countries – they can quite easily make full use of the latitude under the quotas. According to this line of reasoning the cause of utilisation rates below 75 % lies on the supply side. Against this background, the argument that the mere existence of EC quotas has a fundamentally adverse effect on the possibility of exporting to the EC carries little conviction.

<sup>12</sup> Cf. G. Ashoff: The Southward Enlargement of the EC – Consequences for Industries and Industrial Policies, in: INTERECONOMICS, No. 6/1980, p. 304.

<sup>13</sup> The acceding states' share of EC imports of textiles and clothing from outside the Community was 13.4 % in 1980 (Greece 6.8 %, Portugal 4.0 %, Spain 2.6 %); cf. O E C D : Trade by Commodities 1980.



years after accession but will allow annual rates of growth<sup>14</sup> appreciably higher than those of the quotas for Mediterranean countries. The Community is seeking a similar arrangement with Spain. If the export capacity of the two Iberian countries keeps pace with the increase in quotas, the raising of quotas or their complete removal will improve their market access at the expense of non-member countries. This would affect primarily Cyprus, as Portugal and Cyprus both specialise in the British market. The same already applies to Greece and Yugoslavia, which are both oriented towards the West German market.

□ The effects of the southward enlargement do not, however, depend solely on trade policy; they also depend on the development of wage costs, productivity and quality. Portugal, above all, still has relatively low wage costs. After the southward enlargement of the Community those Mediterranean countries such as Israel and Malta that are less competitive will have to contend not so much with new import restrictions as with keener competition. The EC could abolish the quotas for these countries, as indeed it already has in the case of some of those relating to Malta. Those countries that are on the same competitive level as the acceding countries (probably Morocco, Tunisia, Egypt, Cyprus and Yugoslavia) must expect additional import restrictions if the export capacity of the acceding countries increases further after the removal of quotas *and* if the EC shifts this additional supply pressure indiscriminately on to non-member states (zero sum game).

□ The future Mediterranean policy of the EC must take account of the fact that the Mediterranean trading partners enjoy preferential status over other non-member countries and that this was preserved under the textile import policy, even though the informal self-limitation arrangements do not accord with the official bilateral agreements. For the present, it is not realistic for the Mediterranean countries to expect completely free access to the market in sensitive textile and clothing products, as this would give them the status of quasi-members of the EC. Even below this level, however, it is still possible to pursue an improved preference policy, which should comprise three elements: (a) if quotas still exist after 1986, higher rates of growth for Mediterranean countries than for other non-member states; (b) guarantees that unexpected integration-induced surges in exports from the acceding countries will not lead to additional restrictions on the Mediterranean countries; (c) the introduction of a "common Mediterranean quota" permitting the unfilled

quotas of one supplying country to be ceded to another state as necessary; of course, this presupposes political and administrative co-operation among the Mediterranean countries.

### Future Industrial Development

The Community's current notions regarding the development of economic relations with the Mediterranean states must be rethought as a result of the changed circumstances. The liberalisation of trade has been completed. In spite of the emergence of protectionist tendencies within the Community, free market access should be defended under any future Mediterranean policy and extended in the field of sensitive products. However, free market access is no longer a guarantee of new export openings, as conditions are turning against the Mediterranean countries owing to the recession and the stagnation in the demand for mass consumer goods. They also have to contend with the growing competitiveness of the more advanced developing countries with a comparable range of exports. New export opportunities depend essentially on diversification of the range of goods offered, product differentiation, specialisation in high-quality products and pursuit of an effective policy regarding market niches. As a general rule, however, concentration on the EC market can no longer be regarded as the sole strategy for furthering industrial development in the Mediterranean countries.

The future industrialisation policy of the Mediterranean countries should give greater encouragement to the development of their domestic markets, promote the expansion of regional trade (that is, trade among the Mediterranean countries themselves) and endeavour to open up markets elsewhere. The prerequisites for the various countries in question and their prospects differ quite widely:

□ Algeria, Syria, Morocco and Tunisia are in a favourable position as far as raw materials are concerned. They have commodities that are in high and, in some cases, growing demand on world markets (oil, natural gas, phosphates). Egypt, Turkey and Yugoslavia also have raw materials that favour the further industrial development of these countries – bauxite and oil in the case of Egypt and coal, iron ore and non-ferrous ores in that of the other two countries.

□ The balance of payments position is not a decisive obstacle to further industrial development in Algeria, Syria, Israel, Tunisia and Malta; this is partly due to substantial earnings from exports of commodities and partly to the receipt of considerable development aid.

<sup>14</sup> 1st year: 7-9 %; 2nd year: 9-11 %; 3rd year: 11-13 %; 4th year: 13-15 % (according to information from the EC Commission).

□ Egypt and Turkey show appreciable potential for industrial development through an expansion of the domestic market and the horizontal and vertical diversification of the structure of industry. The prospects for stronger domestically oriented development are also good in Algeria, Morocco, Yugoslavia and Syria. By contrast, the scope for diversifying the structure of industry is limited in the small Mediterranean countries, in particular Malta and Cyprus. In future they will continue to be highly dependent on exports and probably also on co-operation with foreign firms.

□ In the industrial sector the Mediterranean countries display a high degree of dualism, which is becoming an increasing obstacle to development. The pattern of the economy whereby the modern sector consists of large export-oriented firms and the supply of the domestic market is left in the hands of traditional small and medium-sized enterprises, which are usually unequal to the task, must be changed by giving massive assistance to small and medium-sized industrial firms. This is also important from the points of view of employment and regional policies.

### The Consequences

The realisation of these industrial policy objectives is first and foremost the responsibility of the Mediterranean countries themselves. The European Community can make only a limited contribution, but it should take its role seriously, for these countries are important trading partners<sup>15</sup> and will remain so, even though in future they will be orientated more strongly towards their domestic and regional markets. If the EC wishes to maintain and intensify its relations with the Mediterranean countries, the necessary orientation of their industrial development requires greater financial, economic and technical co-operation, which must also be more finely differentiated according to country rather than follow an overall approach. In these circumstances, free access to the EC market can no longer form the centre piece of relations, though it must be defended and should be reinforced by technical assistance, such as sales promotion.

In the trade field two new aspects will be under discussion in future: the question of reciprocity and the extension of the rules of cumulative origin. Where Israel, Turkey, Malta and Cyprus are concerned, the EC should

in principle insist on keeping to the agreed timetables for the reciprocal dismantling of tariffs, although it should be more flexible with regard to acute balance of payments problems and the protection of new industries until they have become internationally competitive. The same applies *mutatis mutandis* to the hoped-for customs union (adoption of the CCT by Malta, Cyprus and Turkey). In the case of the Maghreb and Mashreq countries, reciprocity was not stipulated in the agreements, so that insofar as it makes economic sense it constitutes a possible bargaining counter that could be exchanged for other concessions from the EC. The cumulative origin that the EC has conceded to the Maghreb countries has probably been of little practical importance so far. Nevertheless, it cannot be ruled out that its extension to other Mediterranean countries, which has been demanded in some quarters, may provide a stimulus to the intensification of intraregional trade, even if this depends crucially on the partner states.

The exploitation of the raw material potential, the horizontal and vertical diversification of industry and the modernisation of existing firms represent interesting starting-points for economic co-operation to which the EC can contribute by means of the transfer of technology, technical aid, training, support for co-operation between firms, expansion of the infrastructure and other measures. Great interest from the point of view of development policy attaches to assistance in restructuring small and medium-sized industrial enterprises in the Mediterranean countries. One particularly important aspect would be the promotion of integrated industries and complementary infrastructure measures that could foster the intensification of regional trade. Such forms of co-operation with the EC are in no way inconsistent with the fact that the future industrial development of the Mediterranean countries can no longer be oriented primarily towards the possibility of exporting to the EC. Co-operation does not become uninteresting as a result, it merely requires increasing differentiation.

On the whole, the proposals described here are not new; they are inherent in the existing agreements to a greater or lesser extent. What is new is the changed setting. In view of the economic problems of many partner countries, co-operation with the EC will require larger quantities of financial aid from the Community. On the other hand, the EC's scope for financing development is shrinking. This dichotomy is all too evident and for that very reason is exerting even stronger pressure on the EC to clarify its priorities with regard to foreign policy and foreign trade policy.

<sup>15</sup> In 1980 EC exports to the Mediterranean countries accounted for just under 5 % of total EC exports and were thus slightly lower than exports to the USA. The trade deficit of the EC amounted to almost US\$ 30 billion in 1981; by contrast, the Community recorded a surplus of almost US\$ 10 billion in trade with the Mediterranean countries, roughly the same magnitude as its deficit in trade with Japan. Cf. I M F : Direction of Trade, Yearbook 1982.