New Strategies for
Development Co-operation

by

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Introduction

This paper is a part of the works to be presented to the "*Mediterranean Conference on Population, Migration and Development*", scheduled for 15-17 October 1996. Its purpose is to provide a critical assessment of development co-operation between Europe and the countries on the Southern and Eastern shores of the Mediterranean, outlining the historical developments, the present patterns and the future prospects of development co-operation through new strategies involving both Europe and countries in the South and East of the Mediterranean. As is clear from the title of the conference, this is to be done in relation to population and migration issues. More specifically, it is known that both parties are about to launch a new framework for their mutual relationships for the future based upon "**partnership**", which introduces a departure from the past. This calls for questioning the basis for previous relationships, in particular over the last two decades, their impact and the need for change, if any. It is clear from the criterion selected, namely development of the countries in the region, that there is an anticipation to find more constructive means of rebuilding relationships on the basis of development co-operation. Issues of both population and migration, as well as development in countries of the Mediterranean region are the subject matter of other papers; but we still have to anticipate some of their findings in order to build upon them. 1.

The trouble about the narrow definition of the objective, namely to confine it within the limits of interaction between population/migration issues and development, is that it involves the danger of doing injustice to both. For example there might arise a tendency to assume some sort of cause-effect relationship between the two sides of the problem, and to judge the reasons for actual events and the degree of success of prevailing modalities of co-operation on the basis of curbing migratory movements, or in coping with the broader issue of demographic and population changes. It is our belief that the search for new modalities goes beyond the classic attempts of improving performance, learning from experience and absorbing more realities. This is only part of the story. The more fundamental issue is that realities have changed and are changing, on both sides of the basin, and on both types of the issues. In fact we are entering a new era in the history of mankind, and not simply saying *adieu* to a closing century. But this is not emerging out of the blues; on the contrary, it is a part of a wider process of change which is the essence of the long-term development that was triggered by the start of the industrial revolution, and its evolution into a services revolution. It will be seen that a good deal of the reasons for reconsidering regional issues and relationships arises from the changes brought about by this evolution. Hence the need to consider both external and internal aspects. 2.

On the other hand we have been living too long with concepts to make them ambiguous. One of the startling examples is the term *co-operation* itself; another is the term *development*, and as it happens, the two are major building blocks in our study. It seems rewarding to dwell for some time on the specific meanings of these concepts, both in the new context, and in as far as our purpose calls for. There is also need for an investigation of the concept of *region*, which defines the scope of the study. This will help us, both in assessing past performances, and in evaluating future prospects, which are expected to be governed by new trends, both at the global level, and within the context of the two sides of the region. 3.

Part I - The Context

A Changing World Economic Order

Tools of Analysis

Two concepts are brought to the fore when issues of international relationships are under study: *globalism* and *regionalism* They are often quoted as an antithesis to the notion that long established itself with the advent of the industrial era, namely *nationalism*. The change is not merely one of scope or coverage; it has strong bearings on the modalities of co-operation as well as objectives of development, since nations are still there, and the national State is still the basic unit into the international fabric. The fact is that changes in the underlying economic system have led to changes in functions and aspirations. Hence, our starting point is to investigate the causes of the change in the system, which leads to changes in the shape of the **firm**, i.e., the elementary unit of the system. It is our claim that this unit has undergone three phases of change, and that the present phase is relatively new and is undergoing continuous reshaping. Our next claim is that these changes have caused fundamental changes in the space in which this unit acts, namely the **market**. People and economists continue to speak about markets in much the same way as Adam Smith did, and refer to his "invisible hand"; in fact there is a stronger pressure nowadays to worship these concepts. It is our belief, and we shall attempt to prove, that fundamental changes have taken place. The result is that we have now more across-the-border actions and interactions, that we have to rebuild our conception of markets and their eligibility for undertaking many of the functions assumed for them in many modalities of co-operation and development. The very concept of regional integration through market integration is undergoing fundamental changes. But this involves simultaneous changes in the shape and functions of the **State**, a fact that raises sometimes a lot of resentment and debate, that overlook the essence of change. Thus our apparatus is composed of the tripod of 4.

the firm - the market - the State

Further, we propose to distinguish three phases of the order which started international and ended up world-wise, namely the preliminary, the intermediate, and the current. We shall not go deep into the issues of the evolution; we shall try to confine the analysis to the needs of the present study.

The Preliminary Order

During the early days of industrialization, the model **firm** was the individual producer. This resulted in the prevalence of the small firm, and the frequent spread to new branches in which cases of success encouraged repetitions. Under such cases there was a meaning to assume the existence of **free market** conditions at home. But the greediness of industrial activities for raw materials and wider markets called for search beyond the boundaries of the emerging industrial centres, and a wave of colonialist expansion was among conditions of development of the forerunners, accompanied by a Ricardian theory of comparative advantages that managed to confine the fate of colonies to the primary sectors. This governed, to a large extent the pattern of relationships between Europe and the Arab countries, including those in the Mediterranean basin. But, more important still, this caused another wave of independence from non-industrial colonial powers, and of shifts from local sovereignty to State sovereignty. Thus the nineteenth century witnessed the unification of several countries, especially in Latin America, and the emerging nationalism found its economic mate in industrialism. Under such conditions, the role of the State was that of the **Guardian State**, which secured law and order at home to ensure the proper working of free markets, protected the country from aggression of outsiders, and provided for the 5.

procurement of cheap raw materials from colonies and access to their markets, usually to be protected against competing forces.

During this phase, migration across the Mediterranean was also essentially the reverse of its present direction. The Sea carried both armed forces and colonialists who earned their living in the South. Besides holding posts in the governments of the colonies, they carried their skills and capital accumulations in order to operate in the colonies under the protection of armed forces and under auspices of their governments. In some cases, they also welcomed fellow Europeans to do so, encouraged by agreements with the Ottoman Caliph which gave them vast privileges and immunities. Small industrial enterprises were constructed to meet the local needs, which matched the low levels of income of the indigenous people. Major projects were meant for investments in the primary sectors, designed to satisfy the needs of the secondary sector of the imperialist power, while many of the nationals of the countries of Southern Europe were finding jobs in small firms spread all over the colonies, especially in the services sector. The transportation network was constructed on a south-north basis to fit the needs of trade in bulky raw materials, and in some cases, went across several countries, as was the case from mid-Africa northward in west Africa, and from the hinterlands to the eastern shores of the Mediterranean, in west Asia. Big cities were made more comfortable to accommodate the European communities, and received the largest share of utilities that turned them later into centres of attraction from the deprived rural areas, causing an exodus which formed a step along the journey across the Mediterranean. The general outcome was a lop-sided pattern if development along all aspects of life in the countries of the South, the political, the social and the economic. Its net balance was huge transfer of resources to the North, including accumulations of expatriates who utilized them in investing at home upon retirement, or repatriation. 6.

The Intermediate Order

With the advent of the twentieth century, the so-called American century, changes in the shape of the firm took place and took the lead. Motivated by the vast US market that became united as a result of the trade laws, and by the relative scarcity of manpower, the basic unit became the big **corporation**, which brought also a change in scope of activities besides the enlargement of size. The real contribution of such enterprises is due to the fact that the chances of repeating successes dwindled, and new ones had to innovate their own. Further, there were smaller room for competition, and economists, such as Chamberlin and Mrs. Robinson had to set rules for markets which work under **imperfect or monopolistic competition**. Again the change in size brought about another change in status. Either big capitalists kept a keen eye on government, or the latter took direct interest in business, and several modalities of state capitalism emerged, carrying with them autocratic political regimes, the leading examples of which were Hitler's Germany and Stalin's Soviet Union. Others sought more humanitarian errands, concentrating mainly on the distribution, rather than the production side, and welfare states became a fashion. In any case the outcome was a **Leading State**, which did not lack justifications of direct interference in economic life. 7.

The main outcome, however, was growing divorce between the so-far leading micro-economics, somewhat perfected around the turn of the century by Alfred Marshall, and the macro-economics which gained in importance. We would like to select here one of the main aspects that came to the fore and that had implications for what was still to come, namely "*investment*". Irrespective of the blunt refusal of Lord Keynes of the famous Say's law of the classics, the difference was in the subject matters to be treated. To Keynes it was the cycle and the failure of demand to sustain full employment, hence the multiplier effect. To the classics, full employment should be there, and development was essentially a state to be realized by means of more intensive investment, hence the accelerator effect. It took people like Harrod and Domar, not only to combine the two as Hicks did, but also to remind of the 8.

population side of the story and the natural rate of growth. Thus early theories of growth had in mind the state of affairs prevailing in relatively advanced industrial economies. This is why they overlooked the origins of the longer term phenomenon of development, and its nature as a process of change rather than a state among a series of states in the comparative static sense; leaving economists as Joseph Schumpeter to dig deep in search for the dynamic elements of change.

The big corporation had its implications for international relationships in general, and to 9. those between North and South in particular. It did not only emphasize extension of markets; its innovative nature led to the creation of substitutes for several raw materials, and hence to the inclusion within secondary activities new stages that helped to elongate the chain of consecutive production process, and issues of vertical integration became prominent. In particular they reshaped the directions for regional integration from the forced North-South framework to the voluntary North-North arrangements. This also reduced the pressure of colonialism on countries in the South, and enabled the newly independent countries to assign to their States the responsibility for development, including those of catering for the changed relationships with the markets of the industrial countries. Further, the emphasis on widening the external markets in order to improve the economics of big corporations reshaped external relationships into two distinctive manners. Relationships among industrialized countries took essentially the form of rapid growth of inter-trade and of movements of capital, which were made easier by the mode of ownership of incorporated business. Foreign direct investment helped to feed the rapid growth of the US up to the middle of the century, and took the reverse direction towards Europe later on. The share of the developing countries took essentially the form of assistance to State investments, both in the form of loans, in many cases on concessionary terms, and grants, especially for less developed countries. In spite of the defensive strategies based on import replacement, the assistance was calculated on the basis of taking account of the growing imports of more sophisticated industrial goods, both capital goods and intermediate goods, as well as noncompetitive consumers goods. Thus the development policies of developing countries did fit nicely into the growth schemes of more developed economies.

The accompanying changes in the pattern of manpower movement were quite significant. 10. On the one hand the continually changing economic structures of developed countries called for two distinct types of labour movement. One was among their nationals in highly paid jobs or professions, and the other for low-paid jobs requiring inferior skills and harder toil, which were kept open for workers from the South. In the case of Europe, the European Community played an important role since its early customs union days. The resulting internal flow of manpower is accentuated, while that from the South is being curbed for reasons that will be given below. An exception to this latter was the so-called "brain drain" representing a selective immigration to the North. Irrespective of claims to the contrary, this type of migration resulted in an overall shortage of employment opportunities in the South, due to losses encountered in one of the most dynamic elements of growth. What matters here is that, labour markets have been segmented, and workers were classified into non-competing groups. This meant that the labour markets were also far from the state of pure competition, and in some cases the vulnerability of immigrants and their over-supply led to still lower pay. This state of affairs could only persist as long as the structure of production in recipient countries called for it.

The Current Order

The intermediate order persisted up to the third quarter of the present century. But it 11. carried within it the germs of its decay which led to a shift to an order which is still at its infancy. Again the shape of the firm took the lead, this time going beyond the national frontiers thus turning into **transnationals**. One of the features of this form of organization is that within the one and the same enterprise, a vast number of complementary as well as heterogeneous activities could be combined, thus adding functional extension to geographic extension. In a sense the basic unit has become some sort of a mini-economy, composed of several units whose sizes tended eventually to become much smaller than the corresponding corporates, but matching them in the volume of output. The result is that instead of single markets within the framework of a single economy, we have now **systems of markets**, none of them composing a closely integrated system in the traditional sense. For the first time in history, the term "national" ceases to define the outer boundaries of the "economy", and markets cease to be defined within it. Whereas the labour market, for example, was formerly tied to commodity markets within a single economy through circular flows of incomes, production and expenditure, such markets are now only loosely related, and partial cross-links are established with other types of markets and factor services. Criteria such as "relative scarcities" and related "comparative costs" are loosing their traditional tight meanings, and new concepts creep in undefined, such as "world markets" and "world prices".

Another feature is often quoted as a symptom of "globalism" which has become a 12. fashion nowadays, namely the declining role of the State. Decline is an expression of giving away the leading role that went hand in hand with the big corporation, and as a necessity for giving way for the rule of the market, a claim gaining in momentum all the time. We claim that this is an outcome of the change in the order resulting from the transnationalization of the process of production, and the accompanying advancement of tertiary sectors, with the resulting separation between the location of man and the results of his actions. Among these actions are his control over processes far away from his location; but more important still is the divorce between the locations of regular work and its outcomes. This is a possibility that is not available to States. Apart from super powers which have the might to impose their will upon other parts of the world, using different claims (human rights being one), any State can only extend its sovereignty over its own territories. Its role, within such limits are those which we call that of the **House-keeper State**. It may maintain its control on national corporations of the preceding order, but only in so far as this is admitted by transnationals for the purpose of setting the scene for their uninterrupted performance. It is asked to assume the responsibilities for infrastructure and basic services, but mainly under the assumption that this should facilitate the conveyance of flows decided by the headquarters of transnationals. Furthermore, whenever the fruits of labour of nationals have to be safeguarded, international agreements are devised to take care of their rights, and intellectual property protection is becoming a cornerstone in the international order. Whereas such functions do not take the State in developed countries far away from their area of jurisdiction, the fact that transnationals are alien to, and more demanding upon, the State in developing countries, creates a lot of misconceptions on both sides. The problem is further complicated by claims alleging that there is only one way out of dilemmas brought about by the new order, namely the so-called stabilization and structural adjustment programmes, to which the EU allocates a good deal of its assistance to Mediterranean countries. In a sense there is loss of sight of the intricacies of development needs of these countries. This will become clear from discussion in the next part.

The combination of transnationalization and rapid advancement of telecommunications 13. and the so-called "**information society**" produced profound change both in the economic field and the organization of society. Exchange of services is replacing a good deal of traditional commercial trade, and it allows for subsidiaries being located in former markets, to export to them "from within". Two main tools are devised: a higher degree of free movement of capital in the form FDI (Foreign direct investment) entailing the right of establishment, and reliance on rules of protecting intellectual properties which not only produces secure income flows from abroad, but also provides job opportunities for nationals at home. These were among the main stipulations of the *Marrakech Agreements* that concluded the GATT Uruguay Round . In essence this introduces two fundamental changes in the pattern of international trade, so far based upon the location of physical production units at home and exporting goods to the rest of the world. One is the increased exportation of services, not only as output of advanced services sectors, but also as services of factors of production, labour included. The second is that the subsidiaries of transnational, as well as businesses entering into agreements with them are run from the centre by means of **strategic planning**. Rather than entering into detailed plans of actions for future periods of time, which may be subject to review, contract, and control by various authorities, including official bodies of the host countries, decisions are being taken in a continuous manner, and relate to fundamental issues. Among these quite a number are the expression of imposing specific standards and quality specifications. In most cases they involve the restriction of sources of supply of intermediate goods, to be determined by headquarters of transnationals. One outcome of this is that some sophisticated industrial processes could be located in less developed countries, but without being indigenized to their economies, with the result that intermediate goods now flow in the reverse direction: from the developed to the underdeveloped. The features of oligopoly in the markets of the home countries of transnationals are being spread all over, with little that can be done by the respective States. This is disguised under the seemingly neutral term, "market access". The far reaching implications for economic structures and development processes are obvious. They are a positive function of the degree of dependence on international markets, which is becoming a symptom of the present phase with the increased stress on export promotion policies. Proponents of such policies neglect the fact that exportation comes at an advanced stage after exhausting the basic integrative opportunities at home, and their expansion by regional integration arrangements.

The implications for migration are quite complex. On the one hand mobility has become, 14. physically at least, much easier, and population movements are becoming diverse, but with a tendency to become shorter. Tourism, which is an exporting activity of a specific nature, has become a prosperous industry, and people in more advanced economies are inclined to choose their living areas in more pleasant neighbourhood, irrespective of their place of work, or one may say, the place of the headquarters of their businesses. In the North, the prevalence of high unemployment rates rendered the urge for moving in search for better job opportunities less attractive. But conditions had not changed that dramatically in the South. In fact failure to catch up with development needs led to stronger motivations for migration to the North, given the widening income gap, and the ease of both transportation and communications means. It is this disparity between conditions in the North and South that is responsible for conflicting points of view. Problems of "development" in the North are overshadowing the evolving world scene.

To **conclude**, the present stage of the international economic order, has turned it into a 15. world economic order. It is no longer confined to "all the iceberg of the world order above the national level" (to quote the Interim Report of RIO: Reviewing the International Order, Rotterdam, June 1975), it is the whole iceberg, including the national level as well. This is not a mere problem in semantics; it does have strong bearing on the two wings of our subject, namely development and inter-country or inter-regional co-operation. One can hardly speak about means of co-operation in the absence of agreement about areas of jurisdiction of the parties concerned; and these were shown to have changed. Further, the concepts of "region" and "development" have changed, with implications to the North besides relations with the South. To this we turn now.

Part II - Concepts and Definitions

It has been shown in the preceding part that industrialization has gave the nation State a 16 new status, and that its evolution has led to more tension among States whose involvement in economic life led to economic warfare, which in many cases ended into armed conflict. To ease these tensions and to reduce causes for conflict two schools of thinking emerged. One of them suggested **universalism** as a means of bringing mankind closer and more understanding. It essentially adopted the so-called **transactions approach**, which claimed that if people get used to co-operate on matters that involve minimum causes of dispute, they can become more willing to move to more debatable areas. A universal system is thus built piece by piece, and it is liable to reach a stage where mutual understanding saves humanity the destruction that was increasing beyond tolerable limits. This is something different from the globalism to which we referred above. In fact *Universalism is a subjective state of mind*, invoked by the desire to ensure peace and security, whereas *globalism is an objective state of affairs*, provoked by the changes in the production process. The second school claimed that universalism is ambitious, and that a more realistic approach was that of **regionalism**. Still with peace and security as objectives, and recognizing that most frictions occur among members of the same region, the proponents of this school considered that building up of regional systems that loosen the tight hold of the nation State, and create a more favourable milieu for joint decision-making, would have a higher potential of growth and survival. Once in power, the regional system can deal with fundamental problems of development in a more efficient manner, namely is such a way as to ensure a more even share for all members, thus reducing further chances of new causes of friction. Calls for "regional integration" received a higher degree of respect after world war II, and the European example became an attractive model. Over time another concept emerged namely that of "regional co-operation", but with much slimmer theoretical foundations. These developments concurred with changes in the world order, emerging in the intermediate stage, and gaining momentum within the current one, with little distinction between the requisites in both. As in the case of universalism, and due to the present state of globalism, regionalism is subject to changes, that are not often quite explicitly recognized. This has strong bearing on the search for new modalities of co-operation, hence the need to define exactly what we mean by the concepts involved, namely the terms region and co-operation in the regional context. On the other hand, since the main concern is with the issue of development, we have to investigate its meaning, which has been continuously changing, frequently receiving an adjective to emphasize the meaning to be stressed.

Co-operation

The outline proposed by the scientific coordinator of the Conference to which the present 17. paper is to be presented started with the following sentence: "The word co-operation is ambiguous: it refers, often in the same document, (see the Barcelona Declaration) to old forms of assistance as well as to new forms of Co-operation (active participation of two or more partners, i.e. partnership)". In fact the main issue to be treated by this paper is to deal with this type of change, since the "new forms" are, in a sense, an innovation in the pattern of relationships between the two parties concerned. But should it be expected that co-operation be ambiguous because it does not imply in a definite manner the modality to be adopted ? Our belief is that co-operation is being used in two distinct meanings, one of them relating to an action or group of actions to be adopted by a number of States to tackle certain problems, while the second meaning expresses a system of relationships that are to be constructed among them, and refers usually to countries falling within a given region. It is this dual use of the term that seems to be the cause of the alleged confusion.

Literally, co-operation means working together to the same end or for a **common** 18. **purpose**. This applies to its meaning as an action, which means that its specifications are determined by the objective for which the parties concerned agree to combine their efforts. This objective need not have the same weight or importance for all and every one concerned. It may even relate essentially to a single party, in which case others will be assisting in achieving it. Therefore we may better refer to "**mutual concern**". rather than to common purpose. In fact the main concern in the realm of international relationships, whether between two countries or among a group of nations that may include the majority of States, is to devise means of co-operation to deal with problems of mutual concern. If the objective relates to one party and it proves that the cost of achieving it is beyond the means of the party concerned, such as cases where a certain hardship befalls one party, co-operation will be an expression of solidarity with it. While the immediate objective of the party getting assistance is defined and its gain may be calculated, the aims of other parties need not be that obvious, but they nevertheless may be assessed, and their gains, however remote, may be measurable. However, there is not necessarily a unique way of doing things, and the problem of effectiveness may arise. It would be natural to give more emphasis to the primary objective, namely that of the recipient party; but since other factors are usually involved, including the way that party responds to the form of assistance realized, evaluations made by the various parties involved may differ considerably. In the general case, the desire for participation, and the way of implementing it, depend on the specific concern of each party about the problem, and this need not be the same for all, neither in substance nor in degree. Thus co-operation among countries in a basin like the Mediterranean in combating pollution, defines the same purpose for all, but the degree of concern may differ according to differences in the impact of pollution on each, or the implications of the means proposed for combat to their specific priorities, and to their capabilities..

In general, the drive for co-operation relates to much wider areas of interest than those 19. relating to the specific issues at hand. For example, the universalists believe that if people of different nationalities, hence having different aspirations, or even antagonistic ones, start to co-operate on problems in which differences in stands are the least, and in which means of co-operation do not encroach upon sovereignty to an extent that causes resentment, there may be a better chance of getting to co-operate in more demanding issues. In this sense, each act of co-operation when set within its own boundaries, is strictly related to the specific issue with which it deals. But when envisaged within a much wider perspective, it helps to build up a new state in which **mutual understanding** prevails, thus enabling the realizations one of the much desired state of peace among mankind. It is in this sense of building up a system that is capable of growing over time, that the second meaning of the term may be interpreted. In fact this is the underlying philosophy of the United Nations system that was created while the second world war was causing unprecedented destruction everywhere in the world. The Council of Europe is a remarkable regional counterpart, and so are the League of Arab States and its Arab Economic and Social Council. More recently, the idea has been receiving much attention with respect to regional relationships among wider ranges of countries. In this sense it is competing with the so far well-established concept of regional integration. Reasons for this change have to be closely investigated. We shall deal with the concept of a region first, then turn to those of integration and co-operation in this sense.

The concept of a Region

The drive towards regionalism is relatively new, and could be only suggested after the 20. concept of State established itself. To its proponents it is more feasible and manageable, and capable of building up more effective institutional frameworks that possess higher degrees of maneuverability than those at the universal level. As a matter of fact, regionalism may be one step towards a more subtle state of universalism. Thus recent arrangements, such as APEC or ASEM, represent a movement in that direction. But to be capable of acting efficiently, there are certain conditions to be satisfied by a group of countries to form a region, that can possess a regional system. Evidently **geographic proximity** is a necessary but not sufficient condition. Besides helping in building up the logistics of the regional system, it is also responsible for the creation of other conditions that define a region, including that of **homogeneity** in the various aspects of life, the cultural, the social, the economic and the political. However, there is a school of thinking that gives less weight to prior homogeneity conditions, and emphasize instead the **interactive** aspects in these areas, which add to the positiveness of the homogeneity property. It is this interaction that raises concern with each other's problems thus making a case for co-operation with the purpose of building up a regional system. One may also add that the members of the region should also share certain common stands towards other regions and towards the universal system, or at least certain aspects of it. Thus the belief that their gains from closer relationships within the region vis ل vis the rest of the world, was among the main reasons for building up most of the current regional arrangements.

But this raises two major issues. The first is how far homogeneity and interaction 21.
interact. Unless there is a sufficient degree of homogeneity, there is bound to arise more causes for frictions than less. In particular, it had been widely accepted that the polarization properties of the capitalistic system that characterize its international behaviour, tend to be reproduced at the regional level if wide economic divergences occur among members of a region, even within the limits of third world countries. Unless evening out these discrepancies is accomplished in a preliminary phase, conflicts may arise, may even take the form of armed conflicts. But to make the process of homogenization worth while, the ensuing benefits to the members of the region should be markedly in excess of what is realizable in its absence, and the further arrangements for regional co-operation become more feasible.. Moreover, extra commitments imposed by membership in the regional errand should be within admissible limits, both for the original members in the system and for new ones. Problems of this nature played an important role in determining developments in the scope of the European Union, and are relevant to the coverage of the European Economic Space.

The other main issue relates to the nature of the region's ties with the rest of the world. 22.
In refusing involvement in worldwide universalism, countries, especially those in the third world, express doubts with regard to the possibility of getting a fair share of the alleged bigger cake; in fact they think that theirs is going to shrink. This was the motive for inward development strategies and defensive approaches to domestic and regional policies. But there is a growing feeling that self-centered approaches to regionalism were erroneous, and that countries should look outward in an offensive manner. This seems to be in contradiction with the philosophy of most regional arrangements, unless those that feel at ease within the universal environment. It took Europeans a lot of effort to prove that their Single Market was not directed towards building up a European castle. For other less advanced regions the case is much less obvious, and this resulted in a new pattern that is clearly in divergence with past experience. According to the classical approach, a region proper is **not to include a big power**. These powers have their own commitments towards the universal system, which would impose on other members liabilities for which they are not ready. The Soviet Union, while assisting in evening out some of the disparities in levels of development within the Comecon group, its presence imposed a lot of constraints on smaller countries, which caused revolt in Czechoslovakia and Hungary. In the West, big powers represent the centre of the universal system out of which countries seek refuge in a region. Their dominating size is bound to introduce strong biases is the formulation of regional ophelimity functions; an example is the priority given by Europeans to migratory movements in the Mediterranean area, important as they are. We shall elaborate upon this later.

23. What matters here is the new pattern mentioned, that seems to be a new version of the concept of the **Core State**, which represents a driving power from within the region. This role was played, for example, by Egypt in Arab unity schemes. This role normally does beyond the integrative capacity, such as that played by the Benelux group or the Inner Six in Europe; it includes some sort of a buffer function vis ل vis the rest of the world. What is presently gaining wider acceptance is the **redefinition of a region** in a manner that makes the center of gravity a State from the outside, that can act as a locomotive that leads the train of secondary states within the jungle of the vast world. This line of thinking does not represent a voluntary shift from regionalism to universalism; rather it is assumed to inoculate countries in

the region from the haphazards of globalism.. A strong State was usually justified by its capability of providing security to various segments of the society, which found it worth while in spite of sacrifices in other areas. Defensive measures of most regional schemes were in conformity with the search for security in a wider sense. With the decrease in the degree of dependence on the State to provide security, and with the increase in resentment of many nations to oppressive practices of their own governments, a process of cut and paste is taking place. Communities that were tied together mainly because of fear from outside aggression, are beginning to find out that a central State is not only losing its protective capacity, but it has become an obstacle towards an outward looking policy. They prefer less tight regional arrangements to the more restrictive ones with a State, if they promise to facilitate their introduction to the rest of the world. Under such circumstances, the affiliation to a big power as the core State for the region sounds less inappropriate; on the contrary, this seems an alternative that may overcome the potentials of failure so far being the fate of most third world regional arrangements. But still the choice of the leading partner is not random; there should be prior relationships that can be built upon. This applies to all parties of the deal, the big power included.

It is clear that this new pattern deviates considerably from the traditional conditions to be 24. satisfied by candidates of a regional arrangement. A greater capability of penetrating the world arena is definitely not among the motives of big powers. They may be desiring to fortify their presence, but they would be normally looking for minimization of causes of instability in areas that fall within their security domain. This was a major factor in determining the timing of the admission of the Southern countries into the European Union. This example shows also that the said countries have undergone changes that made them more open to the outside world. However, their characteristics which made them eligible for full membership in the European Union, are not available to the countries in the remaining area of the Mediterranean. This has to be taken into consideration when we deal with the Mediterranean region. But this requires differentiation between regional co-operation and integration, which we will do next.

Recently the statement that we have entered an era of big entities, hence countries should 25. not prolong their solitude, and that they should seek entering into regional arrangements. This tends to insinuate that regionalism per se is ascribed certain virtues, a claim that tends to subdue requirements that have to be satisfied in order that the arrangement be viable, efficient, and sustainable. It is true that regionalism, like nationalism, has also changed with the advent of the third international economic order, and the establishment of globalism. Besides if it is true that the final objective is to be capable of acting more properly in the international arena, the evolution of regions would take a different course from what has hitherto been the case. In particular, unless other motives for going ahead with regional arrangements to an advanced stage, the new wave of regionalism seem to stand half way, as will be shown below.

Regional Co-operation/Integration

The concept of a regional system had been long tied up to another concept, namely that 26. of regional integration. According to the **neo-functionalist** school, starting with restrained steps in the economic field, in a manner that proves advantageous to each party, helps to encourage the adoption of more exacting rules, which may end with the region turning into a single State. The plausibility of such an ultimate objective depends on the strength of factors that persuade the people in the respective countries to consider themselves as eligible candidates for a single entity. More immediate objectives usually take the form of attaining stability and prosperity in a more efficient way than what could be achieved unilaterally. This also helps to reduce areas of conflict and the dangers of involvement in warfare, a factor which gained much weigh in the European experience in particular. But this would require more than proximity, homogeneity and interactiveness conditions to be satisfied by countries building an integrated region. At the time of the creation of the Council of Europe, Winston Churchill, for example, remarked that it must eventually embrace the whole of Europe, and all the main branches of the European family must someday be partners in it. His reasons were that these countries have a common tradition. Its essential ingredients are "undoubtedly the cumulative influence of Greek philosophy, Roman law, the Western Christian Church, the humanism of the Renaissance and the French Revolution. They are all Heirs to the spiritual and moral values distilled from these sources in the course of 25 centuries". In other words, the stress was on **cultural and social** elements as prerequisites for the eventual convergence of the members of the region.

It follows that if a region is to run a successful integrational arrangement, it should satisfy a series of conditions. Granted that integration starts in the economic area, member countries should be close to each other in economic levels. A strict application of the market integration theory assumes, though implicitly, that they start from highly protective customs barriers, that helped to produce one of two states. Either quite similar economic structures, which involves the artificial maintenance of inefficient activities; reducing internal barriers would help **create trade** after a redivision of labour on more sound bases. It is here that the dangers of unequal economic levels exist, since more advanced economies have a higher pull effect, that attracts activities away from weaker economies. It is against such prospectives that the “infant industry argument” was developed, and protectionism suggested itself. Even if development levels were modest, such as those of East Africa, or relatively modest as those of Latin America, the disparities that grew fast with market integration schemes either led to open conflict, or to the discard of the whole exercise. The second state is that when the countries involved, starting from a relatively advanced stage of development, and quite intimate trade relations, feel that they have exhausted the limits of their mutual relationships, and that further growth depends on reducing barriers in order to give a new push to trade, on the assumption that “trade is the engine of growth” according to D. H. Robertson’s 1938 statement. The Eastern European case belonged to the first state, and a preliminary phase of evening out discrepancies was a necessity, and it was contingent upon the willingness of the more advanced states to close the gap, hence the name of their arrangement: “mutual assistance”. At a later stage they started looking for the socialist division of labour. The Western European case was the main example of the second, and the quotations of the ensuing high intra-regional trade seem to neglect two facts. First, these countries started from relatively high interdependence, that was partly interrupted by the destruction of productive capacities during the war. Second, that as these countries went ahead with reconstruction, they experienced structural changes, due to technological advances that expanded the potentials of vertical integration considerably as mentioned before. In the meantime they did not reflect big differences in their resource endowments; in fact they were all suffered from scarcities in both manpower and capital, relative to their past standards. 27.

Having covered the trade phase of integration, and realized the resulting restructuring, the region can move to other phases which involve liberalizing **factor movements**, which calls for freedom of movement of people. If the distribution of benefits is even, such movements would be normally limited to the requirements of a more efficient use of regional resources. If this step takes place before the successful implementation of the trade phase, factor movements would be motivated by structural imbalances, and they may help only to create further ones. The Arab region is a clear example of this, where vast movements of manpower followed the increase of financial resources of oil-exporting countries with limited population base. At the same time, it was hoped that a corresponding flow of capital in the inverse direction would help countries with excess in manpower to precipitate their rates of growth, hence employment. But the high dependence on trade with more advanced countries kept the inter-Arab trade below a 10 % ceiling. Factor movements may have helped to rectify 28.

some imbalances, but they failed to produce a more interdependent regional structure. In fact they even failed to reshape internal structures in a more integrated manner, which resulted into rather poor gains of foreign trade and its multiplier effect that is responsible for growth consequences. The rich countries were renovating their infrastructures and basic services, and turned to tradables sectors at a later stage. The poor countries were directing financial resources to nontradables also, and to finance urgent consumption needs which grew fast with the demonstration effect from rich ones. In any case, the factor flows were not limited to the region; labour flows from outside the region were quite enormous, and financial resources found their way to other markets, in the shape of investments in advanced countries, or assistance to less developed ones.

Apart from this particular case, increased mobility of people introduces the social 29. element in a more pronounced shape. The issue of "**social cohesion**", for example gained attention in the European Community as it moved ahead towards the stage of union, supported by what is called the "sense of community". This is an important factor in widening the scope of interests of social groups from the national to the regional level. People no more emphasize the national welfare derived from regional ties, they rather work for a higher level of welfare for the region remaining assured that this will *ipso facto* serve their own purposes. Social groups start to feel that they have much in common with counterpart groups in other members of the region, that they can achieve mutual understanding with minimum sacrifices. In the meantime, the fact that integration has managed to prove beneficial for all, brings different social groups both at the national and regional levels to realize that the region is a suitable domain for coming closer to each other, provided they participate in the regional decision-making process. This introduces democracy as a fundamental component in the regional system, and there should be a common understanding about what it means. Unless these social and political elements are satisfactorily anticipated, the integration process cannot go ahead towards higher forms of union.

It thus appears that the economic element has its requisites, but it also has its limitations. 30. But this does not mean that if the association between a group of countries is essentially based upon economic considerations it should be judged by the same rules. It is here that the concept of **regional co-operation** has crept in. Convergence in economic status need not forth call an attempt for integration in the previous sense, if basic cultural characteristics differ distinctly. For example, what may arise between South East Asia and Europe or the States, would not be integration, but would be confined to co-operation. Again the disparity in economic conditions need not bar the union of a number of zones into one State or a single region, if the social and cultural ties are quite deep. There should be no illusions about the degree of nearness of levels of living within such entities. What happens in fact is that other segments of the population are normally ready to accept redistributional measures that compensate some of the differences. It is this concept that underlies the Structural Funds in the EU, and they are responsible also for the maintenance of the CAP in spite of strong objections raised by many against it. However, the willingness to accept redistribution should be accompanied by careful calculations of costs and benefits. It is evident that in the absence of prospects of social and political integration, the aim and shape of economic integration within a regional arrangement will be different.

It is clear that many factors are combining to create a basis for regional arrangements of 31. a type different from that of regional integration in the traditional sense. Such arrangements do not refute disparities in the levels of economic development; they rather assume them. In fact the less developed parties to them look forward, as previously mentioned, to find support in being introduced to world markets. On the other hand, they need not necessitate a high degree of potential social integration, in spite of geographic proximity and/or past and current interactions. Most likely they are coined to maintain social and cultural barriers, which means that a long-term process of regional integration is excluded, and there are anticipated limits to the arrangement visualized. In a sense there is an area of joint action on the understanding that development needs of both parties are different, but are relevant to each other. It follows that **regional economic co-operation** has become an alternative that can be applied in cases where regional integration in the strict sense is not feasible. This is the meaning which is attributed to the term "co-operation" in the context of new formulas for North-South relationships: It is an arrangement setting rules for these relationships, and not simply tools which are used to deal with specific problems. Owing to the fact regional co-operation arrangements are not expected to end up of a unified region as with traditional regional integration schemes, it would be better to consider them as inter-regional, in the sense that they start and go ahead between two types of countries within a geographical area, each composing a more homogeneous class.

Inter-regional economic co-operation schemes, include trade arrangements that are 32. usually limited to a free trade area. With disparities in development levels anticipated to persist for quite some time, a customs union is not visualized for the near future. This is an expression of the recognition of differences in economic structures. The trouble about this state of affairs is that the maintenance of different customs barriers against the rest of the world goes contrary to the *raison d'être* of the substitution of a regional to an overall trade liberalization. Even if customs barriers were reduced in general, the concept of "origin" introduces a bias in favour of regional partners which raises the probability of "trade diversion". In fact, due to geographic proximity, regional trade ties would be originally high, especially in relation to modest levels of trade of the less developed parties. Rather than helping to diversify their economic and trade structures, these countries end up with higher degrees of concentration, which contradicts the original purpose of being more capable of competing internationally. On the other hand, factor movements are not relegated to more advanced stages of the arrangement, neither are they treated according to similar rules. In fact one of the aims of the more advanced partners in such arrangements is to make a deal with the less developed ones. The latter have to allow for free entry of capital and right of performance, and to restrain at the same time the flow of labour migrating for search of job opportunities or better pay. This fits with the rules of the present economic order as we outlined them above, and it is in line with the stipulations of the Marrakech Agreements. Hence our preoccupation with these issues in the first part. It appears, therefore, that this regional scheme is more in line with the transnationalization process, and unless produces tangible results in the field of development, its sustainability is doubtful.

Development

Literature on regional economic integration usually differentiates the final objectives of 33. the integration endeavour in different regions. Objectives for more advanced countries have strong political and social flavour. Concern with economic issues derives from the desire to narrow areas of conflict on the one hand, and to create more favourable conditions for further economic growth on the other. The objective for groups of developing countries is essentially that of overall development, given that acting unilaterally in the international system does not ensure quick discharge of the state of underdevelopment. It is this emphasis on mutual development that distinguishes the process of integration among less developed countries, and it is responsible for seeking other means than straightforward market integration that proved useful in more developed regions. The fact that most regional arrangements among underdeveloped countries proved to be a failure, is sometimes explained by the unsuitability of the approach based on market integration; but neither were attempts to adopt what the Hungarian economist Vajda calls "production and development integration", which is based on programs of expansion of industries that cannot reach optimum sizes at the country level. This does not exclude the market; it rather tries more conducive market conditions for further development. In fact similar arguments may apply in the case of developed countries in their attempt to enter new spheres of production, hence regional co-operation on technological development. The question arises therefore, whether development, being a common objective to both groups of countries, can be taken as a common denominator for arrangements that combines both ? And if so, what would be its nature ?

Apart from concern with the very long term evolution of the economic life of mankind, 34. the treatment of development in the strict sense is relatively new, and it has been advocated by economists who tried to suggest ways and means of underdeveloped areas, whether regions or countries, and in the latter case, this accompanied the process of political independence. Since prevailing economic structures and external relationships were largely the heritage from the pre-independence stage, the concept of gaining independence governed both the political and the economic scenes. Further owing to the disparity in economic structures, and in particular the imposition of specialization in primary sector since the emergence of the preliminary world economic order, development was conceived of as rectifying the economic structure so as to have a share in the ever-growing industrial sector. Since the main determining factor was the factor "capital", to which human skills were adapted, a bottleneck in this respect meant an impediment to growth. As it happened, conditions in the advanced countries emphasized this factor, and investment was a crucial problem as mentioned before. In a sense there tended to develop a body of thinking about "growth" rather than development in the full sense, and this originated with the experience of developed countries, and was one way or the other reflected on the less developed countries, where shortage of capital seemed to be "the" main problem. This treatment seemed to illustrate that the process of growth cannot continue, i.e., be "self-sustained" unless the vicious circle of capital scarcity be solved. This opened the way for calls for "assistance": the rich countries had to assist the poor to overcome the initial period during which investment needs exceeded domestic saving capabilities. Simultaneously, there were demands for rectifying the international system which disfavoured exports of raw materials. But the objective changes that were taking place in the production process itself, overruled any attempt to come near to this objective. Besides the advanced countries were not willing to yield easily to either, assistance or trade. When Chapter IV was added to GATT 1947 during the sixties, it was expressed in loose and less binding terms. There existed a recognition of the need and importance of helping developing countries out of their underdevelopment problems, but at the same time there was not an equal feel for the fruitfulness of doing this. It may be stated here, that the present assistance/co-operation swap in North-South relationships is not new, it is a new version of a persistent pattern of behaviour.

It may be argued that the failure to come with ample amounts of assistance may be 35. largely responsible for the frustration of most development endeavours. This, at best is partially true. What turned out to be the general conclusion was that the process of development itself had been mishandled. We need not repeat the history of the debate that started during the seventies and is still going on. At present we are required to accept a new term of "sustainable human development" (SHD). To select arbitrarily some of its features, we may say that the adjective "sustainable" is no more confined to the factor capital, it is extended also to the factor nature and to the factor human resources. These latter two factors were recognized by economists, but they were not considered as limits to growth; in fact Arthur Lewis long ago claimed that the case of developing countries was one of abundant labour supply, hence the course to be adopted is to use most efficiently and sparingly the factor capital. To him also the objective of the process was to widen the choices of mankind, and this is being reinterpreted by proponents of the human development thesis. This is not the place to dwell on discussion of development theories and practices. What we believe relevant to the subjectmatter of this paper may be confined to three issues, two of them relate to the source and nature of assistance, while the third relates to the meaning of development in relation to different groups of countries.

The first issue, namely the source of assistance, is essentially a contrast between internal and external sources. To quote R. Frisch, we have to differentiate between "propagation problems and impulse problems when dynamic economics. Unless impulses from outside a dynamic system are accompanied by inherent propagation schemes, there will be an endless demand for such impulses. To maximize the effectiveness of such impulses, they should be directed towards the triggering the internal propagation forces, or to create them if they were lacking. This is in fact the essential feature of indirect control of the economy which underlies economic policy formulation. It may be stated that though interference with the purpose of activating economic development may be necessary, an expectation that such interference has to persist along the same lines simply means that the economy concerned remains incapable of generating economic development in a self-sustained manner. In other words, interference should be designed so as to phase away within a reasonable period of time. The calculation here should not be limited to the nature of specific type of interference such as external assistance; the final outcome would depend upon a correct conception of the development process. 36.

Assistance may take different shapes; but eventually it is measured in financial terms. 37.
Such financial means need not be imported from abroad; they may be forthcoming internally, if there exists a rentier source of income, such as hydrocarbons. The trouble about such means that they involve an interruption of the system, with the external sector nullifying a good deal of the multiplier effects. A billion dollars say coming out of exports of hydrocarbons lead simply to activating economies in which this amount is spent, its internal original impact is trivial, owing to its poor backward linkages. If alternative export activities are created, but still with their main backward linkages during the investment and production phases are tied to the rest of the world, the total effects would be limited to direct effects, with little by way of indirect effects due to input-output relationships which grow with the increased interdependence of the economy at an advanced stage of development. Accordingly, strategies centering around export promotion are not much better than the import replacement ones, unless they are accompanied with restructuring the economy so as to be more interdependent. This is where an export activity based on industrial expansion is superior to one confined to primary sectors.

But for expansion to continue there should be built in the necessary means for entering 38.
new domains. In most cases, assistance is directed towards transferring to recipient countries the missing know-how, which is specific to sectors to be developed. This may help establish some new activities, and over time enable them to expand, if the relevant know-how is fully absorbed. After the initial impulse is exhausted, all depends upon whether further movement still requires another impulse, or that indigenous capabilities had been built in a manner that is sufficient to go ahead independently into other ventures. To a great extent this depends upon other segments of the development strategy; but still much depends upon the nature and the location of the assistance forwarded. It is evident, therefore, that a continuation of the process of development is not contingent upon absorbing past knowledge; it is essentially a function of the intrinsic capability of adding to future knowledge. This is the core of the present stage of technological development. It is not a revolution in the sense of adding unprecedented tangible and intangible means of satisfaction; it is a revolution in the sense of the way man is coming to handle his environment. The importance of the human development concept is that it brings this dimension squarely to the fore. For assistance or co-operation to be meaningful, there should be an agreement as to the essence of the development process, and its implications for the organization of human societies, and interactions among them.

According to the traditional growth theory, we may conceive of the development scheme 39.
as an open system. We conceive of a scheme as inputs entering a transformation process to produce outputs. A closed scheme is one in which outputs are plowed back into the scheme

as inputs in an essential manner. The traditional scheme of growth was closed in so far as capital was concerned: capital is composed of outputs produced within a given period which are reinjected as inputs to the next period. But it was open in the human sense: its outputs in the shape of consumers goods formed components of living standards for human beings; the input in the shape of manpower capable of participating in the development process has to be prepared outside the system in its strict intrinsic properties. The SHD approach helped to shed light upon the fact that for output to be dynamically reintroduced into the system as input, thus closing it, it should take the form of a quality of life that produces a brand of people with high creative talents that adds to human knowledge and opens new tracks, and not only furnish them with past knowledge to enable them adapt to existing economic structure and production tools. This is the essence of the current post industrial stage, and it is seen to change dramatically the role of past accumulations, whether of ownership of natural wealth of the pre-industrial era, or of capital accumulations that characterized industrial capitalism. That is why we have suggested calling our present stage as "**technolism**" rather than capitalism, to emphasize that the decisive role is not of capital *per se*, but possession and development of technological knowledge.

But one cannot replace a socio-economico-political system like capitalism by another 40. that is essentially economic or technological. We claim that the change is not simply economic, it is essentially a new way of life. The transformation process in our closed system is no more the economic structure, it is essentially the **social organization**. And this has to be adapted to the genesis of the new system. Capitalist countries managed to restructure their social organization during the second order to ensure harmony in the system. They are now, and the rest of the world with them, at the threshold of an essentially different epoch, during which the buildup of the human society is departing from the past. The infiltration of transnationals is adding to the complication of the situation, and human beings are being judged in terms of creativity rather than nationality. We claim that the failure of the development experiences of most developing countries was not due to departure from orthodox economic dictums; it was rather due to the negligence of the fundamental base which is social organization. Therefore, any attempt to go back to the right track does not call, as often repeated, for abiding to market rules and respect of the personality of the individual, his rights and incentives. These are necessary conditions, but they are not sufficient. What is necessary and sufficient is to recognize the full rights of the society and its proper organization. What is really a cause of worry, is that coming nearer to this fact is accompanied by a watering down of the role of social elements in building up new regional arrangements, with implications for the nature of co-operation between members of varying social and economic achievements and prospects.

Part III - The Impact of the 1970's Agreements

Co-operation and Association Agreements

The relationships between the European Community and the Mediterranean countries 41. were governed by a series of agreements concluded during the second half of the nineteen-seventies. Two of these countries were later on elected for full membership in the Community, namely Cyprus and Malta, while a third (Turkey) is offered membership in a customs union, which means that the three countries are accorded one or the other of traditional formulae of integration, hence means of co-operation with them are determined by the rules of the formula selected. Another country, Israel, is a special case as it adopts a policy of net immigration for certain reasons of her own, which means that migration flows are not among the motives for contracting its co-operation agreement. The case is further complicated by the specific political factors involved, resulting in receiving special treatment in other political positions adopted by the EU, and which assume specific relationships with Israel in establishing and enlarging its existence, whatever the feelings of her neighbours, and their points of view on what may be considered as a just and sustainable settlement in the Middle East. This was clear during the so-called Euro-Arab dialogue which took place after the October 1973 war and the first significant rise in oil prices, in which the EEC insisted on confining negotiations to strict economic matters, whereas Arab negotiators wanted to extend the deal to wider issues. Notice that it is now the European side that is insisting on introducing political and social matters in the cooperation package. In any case, there grew a tendency to break down the Arab region into at least three parts, and divert the inter-regional dialogue to a region (Europe)-country (Arab) basis. Thus Maghreb countries were given special attention due to more intricate relationships, especially after the belated independence of these countries. Mashreq countries were subdivided into at least two parts, the first is the Mediterranean countries (including Jordan), while the second consisted mainly of the Gulf oil-exporting countries, and Yemen, and they are classified as Middle East in EC reports. Eventually the Dialogue came to a halt after the Sadat unilateral peace accord, and the main outcome was agreements held with the seven Mediterranean States, Algeria, Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia, besides the Palestinians. Libya was excluded, while Mauritania was left out for the Lomè Convention. Attempts were made late 1989 to revive the Dialogue, but they were soon suspended consequent to the Gulf War. We shall confine the current part to the seven countries indicated.

The Agreements concluded during the period 1976-1978 with the seven countries were 42. naturally affected by the prevailing conception of the preferential treatment principle which did not impose the *MFN* clause upon concessions accorded by developed countries as a group to less developed countries as a group. Another factor was operating, and that was the changes that were taking place in the international order, consequent to the breakdown of the monetary system and the prevalence of inflationary depression, which later on combined to trigger the dramatic debt crisis, and the turning of the eighties into a lost decade for the third world. In a sense such preferential treatments were justified by a desire to keep developing countries from being completely depressed, thus losing their potential of adding to a much desired rise in world demand to help ease out economic hardships befalling the world as a whole. A third factor that should be allowed for is the rapid growth of the inter-Arab migration flows consequent to the rapid growth initiated by the increased oil earnings, especially in the Gulf countries. While this may have helped to reduce pressures for migration outside the Arab region, it may have also inhibited migratory habits that encouraged migration to other regions as well. This would be especially the case in those countries which found it easier to depend on emigration as an easy solution to their development problems. However, this migration was basically from Mashreq countries, and Palestinians found in it a way out of their dilemma, at least up to the 1990 Gulf war. But still the issue of migration towards Europe was one of the concerns of the Euro-Arab dialogue, especially with respect to the observance of their rights.

Apart from the mode of co-operation adopted, it is clear that migration was not considered 43. as a major objective. It could be only expected to be involved indirectly as a result of economic consequences and the impact on development Usually Article I of each of those agreements defined its objective as follows:

> "The object of the Agreement between the Community and (Country X) is to promote overall cooperation between the Contracting Parties with a view to contributing to the economic and social development of (Country X) and helping to strengthen relations between the Parties. To this end provisions and measures will be adopted and implemented in the fields of **economic, technical and financial cooperation and of trade**."

Title I of an Agreement is usually reserved for economic, technical and financial co-operation, defining in broad terms the possible areas of co-operation between the Contracting Parties. Title II is reserved for the trade co-operation aspect of the Agreement, stating the concessions granted by the European Community to the country concerned, which were composed of:

- ♦ phasing out customs duties on industrial products one year after signature of Agreement;
- ♦ abolishing all quantitative restrictions for products listed in Annex II to the EEC Treaty (Treaty of Rome) and some textiles categories In line with the *MFA*); and
- ♦ subjecting selected agricultural products to tariff concessions according to a positive list.

It may be recalled that Annex II to which reference is made, covered the majority of agricultural products; some of these were subjected to concessions within quite restrictive limits, both quantity wise and time wise. Title IV establishes a Co-operation Council which is designed to take decisions and provide a forum for discussing matters related to the implementation of the Agreement. One protocol defines rules of origin applicable to trade between the contracting parties; another on technical and financial co-operation contains guidelines and specific provisions for the implementation of technical assistance projects and allocations of loans by the European Union. The Maghreb countries were permitted the right of cumulation of origin. Over the lifetime of the Agreements, some countries, especially Tunisia, Morocco and Israel managed to obtain wider concessions than originally agreed. Agreements referred to rules set by GATT in such cases as anti-dumping measures.

Conditions changed since the conclusion of the Association and Co-operation 44.
Agreements and one of the most important factors that had to be taken into consideration was dealing with the consequences of the enlargement of the EEC itself. The *XXIst General Report of the EC, 1987*, states that the renewal of the financial protocols related to those agreements which were supposed to enter into force at the beginning of 1988, was to reflect the Council statement of 30 March 1985, in providing for the co-operation to be concentrated on priority sectors for development, in particular agriculture and industry, and on Mediterranean regional co-operation. To take the consequences of the accession of Spain and Portugal to the Community into consideration, an additional protocol was added in 1987, which phased out the remaining customs duties already reduced by the Agreement, over the same period and at the same rates as those provided in the Act of Accession of the two countries. This resulted in a rise of allocations of financial assistance that was subject to quinqennial budgeting, and as may be seen from Table (1) the third financial protocol (1988-1992) showed an increase of 59.5 % over the second and

Table (1) Allocations to second, third and fourth financial protocols

(million ECU)

Country	EEC Budget Allocations			Loans from EIB			Total Assistance		
	II	III	IV	II	III	IV	II	III	IV
Algeria	44	56	70	107	183	280	151	239	350
Morocco	109	173	218	90	151	220	199	324	438
Tunisia	61	93	116	78	131	168	139	224	284
Egypt	126	199	258	150	249	310	276	448	568
Jordan	26	38	46	37	63	80	63	101	126
Lebanon	16	20	24	34	53	45	50	73	69
Syria	33	36	43	64	110	115	97	146	158
Israel	0	0	0	40	63	82	40	63	82
Total	415	615	775	600	1003	1300	1015	1618	2075
Maghreb	214	322	404	275	465	668	489	787	1072
Mashreq	201	293	371	285	475	550	486	768	921

Total Arab	415	615	775	560	940	1218	975	1555	1993
Growth Rates	..	48.2	26.0	..	67.9	29.6	..	59.5	28.2
Ratios of Allocations (%) to:									
Total Alloc.	42.6	39.5	38.9	57.4	60.5	61.1	100.0	100.0	100.0
Total GDCF	0.27	0.39	..	0.37	0.60	..	0.64	1.00	..
Total GDP	0.08	0.11	..	0.10	0.16	..	0.18	0.27	..

Source: *XXIst General Report on the Activities of the EC, 1987*. Table 17, p. 305. *XXVth General Report on the Activities of the EC, 1991*. Table 12, p. 284.

the increase was more pronounced for loans granted by the EIB compared to those out of the EC budget. This decreased the share of the latter from 42.6 % to 39.5 % of total financial assistance. The fourth protocol, starting 1993, represented a more modest growth of 28.2 %, still giving slightly more weight to EIB loans. To assess the significance of these allocations, we relate them to the total GDCF in the given countries over the span of each protocol. It is found out that budget allocations represented only 0.27 % in the case of the second protocol, and 0.39 % for the third; corresponding ratios for EIB loans were 0.37 % and 0.60 % respectively. This meant an overall ratio of 0.64 % that rose up to 1.00 %, If we relate them to GDP of the said countries the ratios go down to 0.18 % and 0.27 %. One can hardly expect tangible results from such meager amounts.

Following the worsening of economic and political situation in the countries of the 45.
region due to the Gulf War, a decision was taken on December 1990 on a **New Mediterranean Policy**, for which the Commission presented a package of measures to the Council, and the European Parliament passed a resolution on July 12, 1991 calling on the Council to give greater priority to that new policy, which entered into force in 1992. Starting 1/1/1993, the majority of agricultural exports from the Mediterranean non-member countries were granted exemption from customs duties. In addition to the financial protocols concluded with each country, various projects and other initiatives were financed under a new instrument for co-operation set up to cover all Mediterranean non-member countries. However, with the increasing international concern with environmental issues, an amount of ECU 52.6 m. was committed for operations concerning environment, research and decentralized co-operation programmes (MED-Campus for higher educational establishments, MED-Media, for media institutions, and MED-Urbs between local authorities). The ECU 200 m. EIB loans during that year were allocated to the environment, energy and telecommunications sectors. The fourth and last financial protocols started in 1993 with a one year delay in the case of Syria. Emphasis went to the support of structural adjustment and economic reform programmes adopted by many countries in the region. Algeria was granted assistance after concluding an agreement with the IMF, a step which was not previously favoured by Algerian authorities. But the period witnessed also further changes in the EU policy towards the Mediterranean as will be shown later.

It is clear that no explicit reference was made to migration. In fact we have to take into 46.
consideration that migration phenomenon was not restricted to a unique pattern throughout. Addressing the *Arab Thought Forum* (Amman) in the fall of 1993, Senator Roger Henneuse (Belgium) quoted an OECD expert saying that “if the sixties were the years of the immigrant worker, the 1970’s were those of family reunification, and the 1980’s those of the asylum seeker”. He added his belief that the 1990’s might well turn out to be the years of clandestine immigration. ILO estimates of this latter type were quoted as giving for the year 1992 figures of 600 thousand for Italy and 300 thousand for Spain. The change in pattern had its implications to relationships with countries of origin. Thus the sixties’ migration was mainly of males, with family ties invoking a flow of remittances that may have helped to add to GNP and ease up the scarcity of foreign exchange. The seventies’ family reunification reduced

remittances, turning migration from temporary to more permanent. On the European side conditions are not the same due to several reasons. Extra-community immigrants are concentrated in three countries, but from different sources. These are Germany, mainly from Turkey; France, mainly from the Maghreb countries; and the UK mainly from the Commonwealth countries. It is estimated that the ratio of Arab migrants represent about 25 % of extra-EU foreigners living on a regular basis within the EU, the majority of these are from Maghreb (843,000 from Morocco, 636,000 from Algeria and 216,000 from Tunisia) with a few from Lebanon (21,000), Egypt (10,000) and Syria (6,500). About 82.5 % of a total of 1,732,000 are settled in France, 8.5 % in Belgium, a reflection of the cultural factor, especially language comprehension

Conditions were changing also in Europe. With stagflation and its aftermath, high rates of unemployment proved to be a more permanent feature of the European countries than hitherto admitted by theory or corroborated by past experience. Continuous cumulation of numbers of migrants in a country with low population growth tended to change the ethnic structure, and to magnify cultural and social disparities. If dismay with foreigners develops, those with the remotest cultural ties would be an immediate target. The situation is complicated with the growing acts of violence committed by groups that use religion (Islam in this case) as a cover for their illegal actions. Countries in the Mediterranean and in the Middle East have been subject to a wave of this sort over the last half a century, that gained in intensity during the last decade or two. On the other hand the changes in Eastern European countries and the worsening of conditions during the phase of transition has added to the stock of extra-EU migrants, and there are more than one reason for treating these differently. One may say also that the retreat of the socialist movement, the extreme rightists add fuel to the fire by feeding racialism which is accentuated by the behaviour of certain parties in the mass media. These run opinion polls after a long campaign which affects the views of the masses and use their results as an evidence to what they actually started. Bur the fact remains that at a time when economic difficulties are far from being solved, and as a result of the new phenomenon of **jobless growth**, which had been characteristic of the beginnings of the new technological revolution, any uncontrolled spread of migration seems quite undesirable. To Europe this is also a desideratum that accompanies the relaxation of restrictions on internal mobility, which may be feared to open new sources of clandestine migration. 47.

Assessment of Co-operation and Association Agreements

Co-operation Agreements of the seventies were shown to be based on a desire to assist in the development of non-European Mediterranean countries, and to concentrate on issues that arose over time; but they were not specifically directed towards dealing with the immigration issue. The long-lasting debate on the relationship between development, population growth and migration is not definitely solved; but there is an agreement upon the existence of association between the phenomena involved. To judge the current Agreements, we have to refer them to their foundation, namely assistance in development of the non-European parties. Besides the financial protocols mentioned above, the other vehicle used was that of foreign trade, and it is in line with the familiar argument that trade is the engine of growth. If exports were enabled to grow in a satisfactory manner, income would rise, and at the same time investment, including DFI, would be encouraged by free access to European markets (within the rules of origin and approved standards). As mentioned before this is also in line with the growing tendency of new regional arrangements to emphasize capital movement to less developed areas, which in turn would alleviate emigration pressures. Therefore, we may start our assessment by considering the development of trade relations between the Seven Arab Mediterranean countries and the Community (of 12) over the period following the conclusion of the Co-operation Agreements up to 1994. This is summarized in Table (2) which gives average values of commodity exports and imports, as well as trade balances (in millions of $ US) with the EU and overall, for four-year periods, starting 1979. Since Algeria's trade is 48.

affected by the specific behaviour of hydrocarbons, we have also given figures for the other six countries. It is true that the rate of coverage of exports to imports is higher in the case of EU, and that it has risen over

Table (2) Foreign Trade of the Seven Mediterranean Arab Countries, 1979-1994

(million US $)

	Values in million $ US				Total less Algeria			
Item	79-82	83-86	87-90	91-94	79-82	83-86	87-90	91-94
Exports to EU	11537	12134	12535	17406	5139	4193	6267	10079
Total Exports	22293	21092	21835	28640	9728	9477	12653	18082
Imports to EU	16834	16861	16439	22964	10707	10789	11598	17661
Total Imports	34614	34862	33610	45740	24372	24875	25282	37303
Balance, EU	-5297	-4728	-3904	-5558	-5568	-6596	-5331	-7582
Balance, Total	-12322	-13770	-11774	-17100	-14644	-15398	-12629	-19221
	Ratio of coverage of imports by exports (%)							
Trade with EU	68.5	72.0	76.3	75.8	48.0	38.9	54.0	57.1
Total Trade	64.4	60.5	65.0	62.6	39.9	38.1	50.0	48.5

Source: Arab Monetary Fund: *Foreign Trade of Arab Countries, 1984-1994*, and prior issues

Table (3) Ratios of Trade with EU to Total Trade, Mediterranean Arab Countries

(million US $)

	Ratios to Total %				Ratios less Algeria %			
Item	79-82	83-86	87-90	91-94	79-82	83-86	87-90	91-94
Exports.	51.8	57.5	57.4	60.8	52.8	44.2	49.5	55.7
Imports	48.6	48.4	48.9	50.2	43.9	43.4	45.9	47.3

Source: Table (2)

time, especially for the six countries, but this was not accompanied by a similar improvement in the coverage of total imports; in fact the situation worsened with Algeria included. Table (3) indicates that for the six countries the ratio of exports to Europe fell indeed during the second period, and regained its former importance only recently. Imports remained less dependent on the European region, but they also tended to rise more than proportionately recently. While this shows the original high interdependence and its change over time, it does not tell much about the development of trade capabilities as a result of the opening of European markets to the said countries. This question is answered by Table (4) which shows that trade has fallen between the first and second periods, then accelerated its growth later on, which meant an overall growth rate (at current prices) of 5.77 % in the case of exports to EU and 5.30 % for

Table (4) Growth of Trade, Mediterranean Arab Countries

(million US $)

Growth Rates	83-86	87-90	91-94	Overall
Exports to EU	-4.96	10.57	12.61	5.77
Total Exports	-0.65	7.49	9.34	5.30
Imports to EU	0.19	1.82	11.09	4.26
Total Imports	0.51	0.41	10.21	3.61
Balance with EU	4.33	-5.18	9.21	2.61

Source: Table (2)

total exports. Imports rose more slowly, but somewhat faster than overall rates, which helped to improve the rate of coverage. In other words, there is no evidence that the so-called market opening did stimulate the expansion of the economies of the said countries, and assist in improving there trade performance in a significant manner. In fact many of the said countries had to pass through structural adjustment processes, and were granted assistance on these grounds which is an indication of their poor economic performance. The high degree of dependence of Arab countries on the EU is accompanied by very low rates on the other side. Table (5) shows

Table (5) Ratios of Mediterranean Arab Countries Trade to EEC Trade, 1979-1994

(million US $)

	Ratios to EEC Trade %				Ratios less Algeria %			
Arab	79-82	83-86	87-90	91-94	79-82	83-86	87-90	91-94
Exports.	1.90	1.95	1.12	1.26	0.85	0.67	0.56	0.73
Imports	2.71	2.74	1.48	1.60	1.73	1.75	1.05	1.23

Source: See Table (2). Also, IMF: *Direction of Trade Statistics Yearbook*, several issues.

that the ratios of Arab exports to EU imports were below 2 %, and less than 1 % if Algeria is excluded. It further indicates that these ratios tended to decline over time, which, when combined with previous data, is a reflection of the slower growth on the other side of the basin. Imports used to be as high as 2.7 % of the EU exports, but again their importance fell down, and this has been much faster due to the attempts to contract large trade deficits. Granted that concessions did not cover all inter-regional trade, the exemptions granted by the EU had very limited impact on the EU's entitlements for customs duties, which were quite low anyway.

Thus far for trade. As to the claim that free access to European markets would encourage 49.
investment, and particularly foreign direct investment, this may be judged by reference to the flow of investments to the said countries. Here data are more shaky than those for trade, but we may rely on balance-of-payments data, as a uniform source. Estimates are summarized in Table (6) which shows the two items given for the flow of direct investment, both abroad and to the reporting countries. The overall growth rates show a very poor increase of 1.15 % for

Table (6) Flows of Foreign Investment to Mediterranean Arab Countries (net)

(million US $)

	Averages in million $ US				Annual Growth Rates			Overall
FDI	79-82	83-86	87-90	91-94	83-86	87-90	91-94	Gr. Rate
Outflows	-18.4	-18.7	-21.6	-52.3	0.37	3.71	24.78	9.11
Inflows	1,139.4	1,091.0	1,258.4	1,307.1	-1.08	3.63	0.95	1.15

Source: IMF: *International Financial Statistics Yearbook, 1995.*

the (net) inflows, whereas the rate for outflows is 9.11 % but at very small values. It may be added here that a lot of efforts were going on to encourage inter-Arab investment flows, and some countries, like Tunisia were quite active in persuading Arabs to invest in some sectors, such as tourism. To measure the significance of these figures, we relate them to both GDCF and GDP of the given countries. Table (7) shows that gross domestic fixed capital formation

Table (7) Foreign Investment in relation to GDCF and GDP, Mediterranean Arab Countries

(current prices, million US $)

	Averages in million $ US	Annual Growth Rates	Overall

Item	79-82	83-86	87-90	91-94	83-86	87-90	91-94	Gr. Rate
GDCF	35,169	38,034	39,013	40,742	1.58	0.51	0.87	1.23
GDP	110,126	131,560	144,693	158,514	3.62	1.92	1.84	3.08
GDCF/GDP %	31.9	28.9	27.0	25.7	-1.96	-1.35	-0.98	-1.78
FDI/GDCF %	3.2	2.9	3.2	3.2	-1.95	1.99	0.00	0.00

Source: Arab Monetary Fund: *National Accounts of Arab Countries, 1984-1994*, and prior issues

did not grow at satisfactory rates over the whole period, and if deflation for price changes is made it would be found to have gone down. Its ratio to GDP fell persistently from 31.9 % to 25.7 %, which again indicates a deterioration of growth potentials. As a result the ratio of FDI to it, after falling somewhat during the second period, remained stagnant at the very low ratio of 3.2 %. Neither domestic nor foreign investment substantiate the claim that free market access in respect of the trade partners with whom more than 50 % of trade takes place could induce rapid growth. Trade seemed to be a poor engine, and something else has to be sought if growth is to achieve reasonable rates.

To conclude, it may be said that the background against which the seventies Agreements 50. were concluded, as the general conception that developing countries are entitled to assistance to overcome difficulties facing their development. This assistance took the form of modest amounts of financial transfers and certain privileges by way of concessions for their exports, although agriculture remained subject to restrictions related to CAP. This did not prove ample to promote exports as fast as was hoped for, and investment, domestic as well as foreign did not rise to expectations. Assistance was torn among competing ends, many of them represented issues of priority to donors, and the whole package was remotely related to a vision for a long-term growth strategy that would deal squarely with development, population and migration.

Part IV - The New Generation of Agreements

Towards New Forms of Partnership

One of the major factors that affected the pattern of the Euro-Mediterranean relationships 51. was the changes that befell the Community itself, during the eighties. The Single Market Act set in motion a lot of activities, among them reconsideration of many policies, including those relating to other regions. The enlargement of the Community, which is now gaining momentum in several directions, had significant implications by moving south to less developed countries that were closer to other Mediterranean countries, hence their accession introduced a sudden shift in their favour, and dismantled past competitive positions with respect to their neighbours. In response to that King Hassan II forwarded an application on 8/7/1987 for the accession of Morocco to the EEC. The strong ties between the two parties, however, were complicated by some problems, such as drug traffic, and the renewal of agreements on fishing concluded with Spain and Portugal before their accession. These required some time for handling them, but the application raised second thoughts on the form of relationships to be held. During 1992 the Commission launched new forms of partnership as part of its development policy, which started a new phase in the Euro-Maghreb co-operation. This was welcomed by the Parliament on 26 May 1993, and the wheel started to run in December 1993. On 6/12/1993 the Community‘s Council authorized the Commission to negotiate with Morocco an agreement whose main components were a political dialogue, financial, economic, social and cultural co-operation, and the progressive establishment of a free trade area. Support to the Kingdom’s anti-drug campaign was also to be given. Two weeks later, another authorization was given with respect to negotiations with Tunisia of a similar agreement. Libya, however, remained subject to embargo, while terrorism in Algeria received greater attention.

52. In the Mashreq, different factors took the lead. The agreement between Israel and the PLO opened new tracks, and the Commission adopted on 8/9/1993 a communication on the future relations and co-operation with Middle East, which set out the general framework for the Community support for *Regional Co-operation* to consolidate the peace process. Here the term was quoted from the Oslo agreement, and it stands to a new form of relations originally visualized by Israel to establish itself as a full member in a region that remained hostile to its very existence. The formula suggested belongs to the alternative regional scheme which we have shown to assume disparities in economic levels and cultural foundations. However, it lacks one of the very justifications for an arrangement of this sort: the region does not contain a core centre that would help the less developed countries in the region improve their international competitiveness. Whatever the claims of the relative advance of Israel, neither its size nor its international performance make her eligible to lead the region to a markedly better state than could be otherwise achieved. Worse still, is the fact that since Israel did not have former relationships with countries in the region, the main outcome would be a net gain on her account, which makes the proposal a negative-sum game for the Arabs. Warnings raised of potential Israeli domination over the region, may be an exaggeration, but not without foundation. What is going to happen in the Mashreq, which should also include Iraq in due time, depended so much on the events of the Middle-East conflict; and is going to depend much on the future of the Middle-East peace. This had been recognized by the EU, which still maintains special relations with Israel. The tough tasks of maintaining peace are undoubtedly going to throw their heavy weight, and there are signs that the EU is trying to adapt its steps to developments in this respect, hence to objectives selected by other parties, particularly Israel and the US..

53. Again changes in the architecture of the European Union had their implications. The year 1994 witnessed a consolidation of the expansion of the Union in many respects. This involved accession of three more members, and the preparations for the eventual accession of the associated countries of Central and Eastern Europe. It continued to strengthen relations with other neighbouring countries, in particular Mediterranean countries. The Essen European Council, December 1994 is a cornerstone in the new policies that encourage interregional co-operation. It approved strategic guidelines for relations with two parts of the world considered as major poles of attraction and new growth areas, Latin America and Asia. The strategy emphasized promotion of relations between the EU and regional integration bodies, such as Mercosur and the ASEAN. The Essen Council decided also to give Israel a special status, and a new association agreement was negotiated and concluded with her. In short, new arrangements with Mediterranean countries have to be viewed within a wider scheme of EU expansion, besides interactions with other schemes specific to the region, particularly the outcome of settlement of the Middle-East conflict, and the keen interest shown by the United States in the Gulf area and in giving full support to the Israeli viewpoint as to the future of the region, including her support for a Mid-Eastern Regional Bank, whose main functions would be to back projects given priority from the Israeli point of view. It may be noticed also, that the proposed M-E *Regional Co-operation*, does not provide a solution for the excess labour force in some countries in the region, and the related migration problem, owing to reasons mentioned before. A good deal of future stability and peace in the region will depend on the suitability of regional arrangements; and within the obvious declared objectives, prospects are not encouraging.

54. The Essen Council adopted a new strategy and model for partnership with Mediterranean countries, which was further elaborated upon in the Cannes European Council (26-27/6/1995). It was considered that European and Mediterranean countries must act together to a greater extent to ensure that the Mediterranean becomes, more so than at present, an area of

exchange and dialogue guaranteeing peace, stability and the well-being of those who live around it. The Council described this as “An ambitious policy of cooperation to the south” that “forms a counterpart to the policy of openness to the east and gives the European Union’s external action its geopolitical coherence”. In its relations with these countries, the EU’s **objective is to ensure stability and prosperity in the Mediterranean**. To that end the EU was prepared to support those countries in their efforts to turn the region progressively into an area of peace, stability, prosperity and co-operation, and for that purpose to establish a Euro-Mediterranean partnership. This was considered to call for political dialogue, and to realization of sustainable and balanced economic and social development, combating poverty and the need for greater understanding between cultures through a reinforcement of the human dimension exchanges. The policy envisaged is composed of two branches. One involves establishing a **multilateral framework** between Europe and the other side of the Mediterranean, and the other involves strengthening of the **bilateral relations** which link the EU and each of its partners. It is claimed that this makes it possible to safeguard, or even accentuate the specific nature of the bilateral relations within the new framework. The proposed partnership comprises three main elements:

- a political and security aspect, which relates to internal and international policy principles that are conducive to stability, allowing for specific cultural features in the region.
- an economic and financial aspect, considered to help building a zone of shared prosperity. This involves three types of action:
  - negotiation of free trade area agreements of reciprocal nature with each country and for the Mediterranean region, covering aspects beyond simple trade in goods;
  - co-operation in the fields of economic development, resources and infrastructure;
  - financial assistance to support the necessary adjustments to be undertaken by countries.
- a social and human aspect to encourage exchanges among civil societies, and decentralized co-operation in areas mentioned previously, as well as for migrant population groups.

The Euro-Mediterranean Conference of Barcelona (27-28/11/1995) adopted the above general framework, and outlined a work programme for its implementation. Economic co-operation was further broken down to sectors, detailing actions to be taken in investment, agriculture, industry, transport, energy, telecommunications and information technology, regional planning, tourism, environment, science and technology, water and fisheries. The section on industry emphasized the role of the private sector and the modernization and restructuring of existing enterprises, cooperation among small and medium enterprises, and the use of international or European standards. Creation of employment was mentioned with respect to industry but not agriculture, where emphasis was on improving production capabilities. Social sectors were covered by the last part which included also sections on migration and illegal migration. As to financial assistance, the Declaration quoted the figure of ECU 4,685 m. out of the Community budget for the years 1995-1999, besides increased loans from EIB, and bilateral assistance.

Country Agreements

55. The agreement with Tunisia, signed on 17/7/1995, differentiated four groups of Tunisian imports of European goods according to pace of removing customs duties; starting either from the beginning, or after five years, and becoming free completely either within five years or by the end of the transitional period of twelve years. By the nature of the criteria chosen, goods to be liberalized earlier have the lowest customs rates (averaging 21.6 %), while those to be postponed have the highest rates (33.8 %), being subject to protection. Liberalization starts thus with intermediate and capital goods and is delayed for consumers goods. While this seems logical, its implications are to reinforce dependence of the Tunisian economy on

importing its production and investment requirements from the European Union. The relatively high duties involved have two consequences. The first is that some trade diversion may be expected to take place, especially as lower transportation costs favour imports from Europe. The second is that the Tunisian budget is expected to be affected considerably, with the loss increasing over time. About 28 % of Tunisian budget revenues are derived from customs duties, while imports from Europe constitute 58 % of total imports, 33 % of them being consumer goods. It was estimated that industries providing about one third of Tunisian GDP would be adversely affected, while another third has to undergo structural changes in order to remain competitive. Similar effects were estimated as a result of the Agreement concluded on 14/11/1995 with Morocco. Negotiations with Egypt on a similar format are facing difficulties in the area of agricultural exports to the Union. Whereas Europe is going eventually to gain free access in so far as industrial goods are concerned, there is insistence on maintaining restrictive arrangements for agriculture products, in which Egypt possesses some comparative advantages. The last round of negotiations failed to provide a solution, and no date was fixed for a new round.

One may argue that such effects may be distributed over time (the transitional period) 55.
and that may leave room for adjustments. But in the meantime expansion of the European Space and the EU itself will have further negative effects. With the Agreement concluded, the country will find itself starting with 15 partners, by year 2000 they will be probably 20 or more, and the number keeps rising over time. This adds to losses in public revenues. The expansion by itself has negative effects, as had been observed in the case of admission of Portugal and Spain due to increased competition, especially if new members become capable of attracting capital investments. It should be borne in mind that Eastern European countries are undergoing changes in their trade structure. Their commercial ties with western countries are to be resumed after interruption during the last half century, while the changed pattern of production will alter the composition of both exports and imports. For the moment the process of transition is calling for certain restrictive measures, which produced negative results on some south Mediterranean countries Over and above, the latter countries have to go through a restructuring process as a result of the Marrakech Agreements, within the same transitional period.

The proposed free trade arrangements were not referred to the situation that arises after 56.
full application of the Marrakech Agreements. The estimates made for gains and losses out of the latter indicate that the region is going to suffer losses, which would definitely increase with the implementation of the new generation of Agreements. We have already shown that twenty years of one-sided concessions failed to improve growth potentials; the combination of WTO and partnership will add further burdens. The allegation that partnership means equality in obligations, and free access has to be provided for industrial products in the markets of both, ignores the huge difference in the importance of inter-trade to both parties. The European party was already offering free access, thus it will not be facing extra obligations. But this relates to less than 2 % of its trade. The Uruguay round is bringing down the average customs duties rates for industrial countries from 4.7 % to 3.0 %, a loss of which is insignificant, especially as it relates to a minor fraction of trade. Even if we allow for higher rates of above 10 % for such commodities as textiles, we may argue that a devaluation of 10 % (or more, as usually the IMF insists) would exceed the exemptions offered. By contrast, the Mediterranean countries have to forgo high revenues, at a time they have hardly managed to close their budget deficits, and still face huge obligations for realizing significant improvements in their SHD. Even if DFI is forthcoming, it would not be far above the modest rates realized in most developing countries. A study of 40 developing countries over the period 1970-1990 indicates that its average was about 7 % of private investment, and less than 1 % of GDP. We have shown that the averages for the seven Mediterranean countries were actually much below that. These, together with the amounts of financial assistance

proposed, of less than ECU 80 m. per annum per country, are far from facing the restructuring caused by the proposed free trade area, not to mention needs for strengthening the development process, which had been adversely affected by contraction of investment rates as shown before. To this we have to add the needs for redressing the process of transfer of resources, which may be illustrated by the case of Morocco. Besides the deficit in its regional trade, Morocco pays the EU about US$ 1.5 billion in interest payments, while its receipts are $ 170 m in the form of direct investments, $ 150 m. returns from fishing, and about $ 80 m. grants or concessionary loans. A net one billion dollars a year is quite close to the whole financial assistance proposed for the 12 countries in the region.

Towards a New Strategy

57. The above discussion has not to be interpreted as meaning that we have to do away with the new Agreements and the underlying philosophy of co-operation. Nor does it throw the responsibility to the European side; this remains the duty of the countries themselves, provided they are given full liberty to state their own choice of strategy for development. The discussion may have indicated that the approach to the problem started from the wrong point: it started from the European side, hence reflected its own preferences (which may be shown to be liable for improvement - but this is not the issue); and at the same time it started from the sphere of external relations, thus being affected by the specific state of affairs in a period of big change which EU lives, rather than from the internal development needs of the concerned countries. One consequence of this latter aspect is that the problem was treated piecemeal; and one may quote the distressing experience of the UN Development Decades which compromised on a lot of issues, and avoided tackling fundamental ones. Just an illustration we mention the problem of origin, and the forfeiture of its cumulation for the seven countries in spite of the fact that each enters the same free trade area centered around the EU. It is one thing to say that an arrangement among the countries of the South is an improvement over the single-country arrangement, and another thing to prove that either is more beneficial than other arrangements involving the same countries, taking into consideration all the factors which reshape the international scene, as we have tried to indicate. We believe that an alternative strategy based on an appropriate development concept for the Mediterranean countries would be more beneficial for the EU as well. Such a strategy should be based on a number of principles

The first principle: Efficiency and Sufficiency of Diagnosis

58. One of the main worries that seem to have attracted much attention is whether assistance on a donor-recipient basis is the correct way, and that is should be based on reciprocity. Such a way of stating the problem as an absolute choice denies the nature of human endeavours that involves multiplicity, diversity and dynamicity. The latter in particular means that assistance in one form should not be a built-in feature; rather its efficiency is in phasing away in due time. It may still give way for another means of assistance. The decision has to be referred to a main objective, and it is here that we are suggesting the proper diagnosis of the development needs of the countries concerned. Our lengthy exposition of the world scene and experiences purports to indicate that the development process has changed fundamentally, not only for developing countries, but for advanced ones as well. A proper diagnosis of the specific needs of Southern Mediterranean countries is needed, and they have to do their homework. Moreover, in a world of increasing interdependence, we should start from their regional level. Let us recall that the OECD had its origin in an arrangement of a regional nature to ensure efficient use of resources provided by the Marshall Plan.

The second principle: Comprehensiveness and Consistency of Objectives

59. Either the first generation of Agreements, or the new one, were an outcome of rather partial objectives that suggested themselves in response to changing conditions. The so-called

New Mediterranean Policy itself has experienced within five years a series of changes, called for by reassessment of past and new factors. This is a normal way of correcting the path within the course of action under a given strategy. But its efficiency rests on the stability of the basic objectives, allowing only for changes in derived objectives and adaptation of means. We have shown that the amount of change calls for a profound reconsideration of the whole set of the primary as well as the derived objectives. But this does not necessitate that the whole set has to be closely interrelated into one document. For example, the often alluded to "respect of human rights" when introduced in an economic document contradicts the basic philosophy of free market play, which concentrates on economics rather than political economy. If stability is to be maintained, its exposure to ups and downs as result of political changes is another way of playing politics with economics. This was one of the issues in the draft Egyptian Agreement. Both comprehensiveness and consistency have to be given the same weight. They should not be confined to aspects of the problem at hand, they relate also to both parties. Much talk is repeated about the development and prosperity of the region, with little done by way of careful analysis. Little is mentioned of the development needs of the European party, and hence about the exact relationship between the two. On the other hand, resentment to migration tends to give improper weight to some measures. For example the objective of maintaining the targets of CAP leads to taking restrictive measures against agricultural imports to the Union. But this overlooks the fact that migration starts from the rural areas, and it is there that Mediterranean countries suffer high rates of unemployment, depressing the whole economy and causing social unrest. As mentioned before, the Barcelona Declaration ignored this aspect, a reflection of need for more work in this area.

The third principle: The qualification requirement

The act of accession to a regional arrangement implies the treatment of the country as a 60.
full partner, entitled for all rights and subject to all obligations by preceding members. But this does not mean that any country may become overnight a full partner by an arbitrary decision. There should by a qualifying period, as well as a gradual programme for achieving the same level as old members. Starting with the Inner Six, the EEC did not find much difficulty in admitting the extra countries that brought it to 9, owing to proximity in conditions and strong trade and other economic relationships. Apart from northern countries keen about their neutrality, admission of countries in the South required a different course of action. But as shown before, the cost of such a course is not evaluated only against pecuniary returns; political, social and cultural considerations have a great weight. If these take different proportions, then the whole exercise has to be cast in terms of a regional co-operation scheme, rather than an integrational one. But the main issue remains: If partnership is conceived, for either scheme, then unless a sufficient degree of proximity already exists, the core group have to grant a new candidate all that is necessary to ensure equality with older members. Partnership is not a property that is arbitrarily attributed to less qualified members, it is rather a decision which has to be supported by action justified by more fundamental objectives. Thus our second point is:

> It is one thing to speak about co-operation rather than integration; and it is another thing to state that admission for a scheme of either sort on a partnership basis requires certain qualifying conditions in which support by old members is required.

The fourth principle: Consistency and Comprehensiveness of Means

It is true that some of the means available in the past are no more available; preferential 61.
treatments for one. But this does not mean that non-preferential treatments suggest themselves automatically in a unique manner. Even if we have to accept them, still other forms of relations based on the concept of assistance have to be investigated, and their full implications have to be taken into consideration. It has become clear that the implications of a

free trade area are far more demanding than the assistance budgeted for the preliminary period which should cater for the fundamental restructuring operations. On the other hand, assistance is usually expressed in terms of money values. Related to the context, namely the restructuring of sectors and enterprises affected adversely by the free trade arrangement, they may be asked to cover the technical assistance to be provided by the European side, which would most probably end by tying up the Mediterranean economies to it; this need not be the most efficient way of restructuring the said economies, so as to diversify their production and trade structures in the face of less favourable markets due to developments in the European continent. Clarity about objectives, and a start from the comprehensive development requirement may call for different recommendations. On the other hand, if it is true that the general trend was a shift from aid to trade, and later from trade to foreign direct investment, the previous analysis shows that conditions would not be conducive for much appreciable flows. Still, such flows are not the end of the story, they are the beginning of a new one. We may recall that Brazil became the biggest debtor in spite of its history of being the raceground for foreign investment.

The fifth principle: The Problem of Evolution Over Time

Most of the discussion of the proposed arrangements, like these latter themselves, 62. neglect dynamic effects, and ignore possible changes, some of them can be easily projected. We have already mentioned that comparison is made against previous Agreements, with little reference for the full impact of the WTO. Further changes in the EU itself may be quite dramatic, especially if we allow for its inter-regional ambitions. Other developments are due to affect its counterparts. Some of these relate to the pattern of migration which prevailed so far around oil revenues, which is passing through a new phase, with implications for migration to Europe. Related to this and to the previous principle, one may mention the case of Iraq and Libya. Iraq had been one of the most open countries for immigration, in spite of her bad record on emigration. On the other hand Libya may still offer further chances for immigration, especially from its neighbours who exhibit high flows towards Europe. The purposeful wrecking of the economies of the two countries is in complete contradiction to the weight and priority given to immigration. The longer the embargoes, the less attractive will they become for further absorption. Again the evolution in the Palestinian territories over time provides more material for thought, not only with respect to the pattern of assistance, but also to the shape of Regional Co-operation as outlined before. The present practices by Israeli authorities adds to much deeper and permanent causes of unrest, and it has to be shown that the support given to the proposed scheme will prove over time consistent with the main objectives. More work has to be done in the area of dynamic and prospective analysis.

Conclusions

Our analysis of the evolution of the Euro-Mediterranean relationships, and the context in 63. which it is taking place, has led us to suggest an alternative strategy centered around a more consistent approach to the issue of development, and the concept co-operation. It has also indicated that although migration (and populations issues in general) were verbally given much weight, they failed to be taken in an integrated manner in the proposals forwarded or in the negotiations and analyses relating to them. It is hoped that the principles we have selected as a basis for that alternative strategy would lead to a more coherent strategy formulation.

And I would like to end with a note of thanks to the Council of Europe for giving me the opportunity to deal with a problem so vital to the region to which I belong. At the same time I apologize for not being capable of making the present paper shorter.