EUROPEAN COMMUNITY AND THE MEDITERRANEAN BASIN:

ASSESSMENT OF AN ECONOMIC COOPERATION

by

Ayse Evrensel-Brown
Clemson University
Clemson, SC 29634-1507

Paper prepared for presentation at the Second International Conference of the European Community Studies Association, George Mason University, Fairfax, Virginia, May 22-24, 1991.

ABSTRACT

The EC has always had a vital interest in the process of economic development in the Mediterranean Basin. The Mediterranean non-member countries represent its third most important trade partner. Also, some of these countries are gateways to oil rich countries in the neighboring region. The EC began to establish relations with the countries of the Mediterranean Basin by closing various agreements beginning in the 1960s (Association Agreements, Preferential Trade Agreements, Non-Preferential Trade Agreements, and Cooperation Agreements). In 1972, these ad hoc bilateral agreements were organized under the "Mediterranean Global Approach" which gave them a common framework.

After almost three decades of economic cooperation, what exactly have the countries in the Mediterranean Basin gained from their relationship to the EC? While there is evidence indicating that the economic cooperation between the Community and the Mediterranean countries has had a positive effect on the Mediterranean countries' foreign trade, in the areas of export expansion and export diversification, the enlargement of the Community in 1981 with the entrance of Greece, and in 1986 with the entrance of Spain and Portugal has created problems for Mediterranean countries' exports. While the EC is still the most important trade partner for the countries in the Mediterranean Basin, the EC's trade with the Basin countries is declining.

I THE EC AND THE MEDITERRANEAN BASIN

Since ancient times, Europe and the Mediterranean Basin have been closely related, not only through vital trade relations, but also by the exchange of ideas. In the early days, the Mediterraean Basin was an equally strong party in this relationship, if not stronger than Europe: "Northern Europe counted for little until it borrowed a toga from the older centers of civilization" (European Documentation 1985). The weakening of the Mediterranean Basin (especially in North Africa and in the Eastern Mediterranean) in its relationship to Europe reached a low when most of the region fell under the control of European colonial powers in the 19th and early 20th century. Algeria, Tunisia and Syria were occupied by France. Egypt, Cyprus, Gibralter, Malta and Palestine by Britain; and Libya and the Dodecanese islands by Italy (Ginsberg 1983).

Even though political constellations have changed in the region, the geographic realities have remained the same, most importantly, as regards the area's close proximity to several important regions in the world: "The basin is one of the few zones on earth, where the capitalist First World, the socialist Second World and the developing Third World meet and it is arguably the one in which they come together in the most intense proximity" (European Documentation 1985). In addition to that, the fact that the basin also constitutes a gateway to oil-rich countries in the Middle East has increased its strategic relevance enormously.

In the post-colonial era, the EC has emerged as an economic superpower, important to among others, the Mediterranean basin. The

EC, motivated by its historical ties to the region, but also by the region's increasing strategic relevance has established economic relations with the countries in the Mediterranean basin. Even though the countries in the basin have been under the political and military influence of one or the other super power, the EC has to some extent ignored not only the ideological differences between the EC and the countries in the basin, but also differences among the basin countries, simply by focusing on the issues of regional economic development (Hine 1985).

The Mediterranean region matters to Western Europe on historical, economic, and political levels: "The Community has a direct concern in the Southern and Eastern Mediterrannean countries' future development. The Mediterranean non-member countries represent its third most important external outlet and its biggest trade surplus, and its security, because it is directly connected with active participation in order to stabilize the situation in both the Eastern and Western Mediterranean" (Commission of the European Communities 1985).

II CHARACTERISTICS OF THE ECONOMIC COOPERATION BETWEEN THE EC AND THE MEDITERRANEAN BASIN

Improved exchange of goods and services, capital, labor, and technology constitute possible types of economic cooperation between countries. In the case of economic cooperation between the EC and the Mediterranean basin countries, the trade of goods and migrant labor (from the basin countries to the EC) has been the most important element in the cooperation. This paper will focus on the trade aspects of the relationship.

Part IV of the Treaty of Rome (Articles 131-6) underlines the possibility of the signing of association agreements between the former overseas territories of the member states and the Community (Coffey 1976).[1] Since the most important colonial powers in the Mediterranean Basin were France and the United Kingdom, they both had already closed various bilateral agreements with their former colonies in the basin. To some extent, the Mediterranean policy was suggested by France and Italy which had colonial links and/or economic interests in the region (Robertson 1976). The change from bilateral to multilateral came in the early 1960s, when the EC began to close various types of agreements with basin countries.[2] Those countries in the Mediterranean basin with which the EC has closed agreements of an economic nature will be called the Mediterranean Non-Candidates (MNCs). During 1980s, three former MNCs joined the EC as full members: Greece (1981), Spain (1986), and Portugal (1986). These will be called 'new entrants'.

Table 1 shows that the EC has signed various agreements which would strengthen the economic relations between the Community and the Mediterranean Basin with every country that has a coastline on the Mediterranean with the exceptions of Libya and Albania.[3] Association agreements signed with Greece and Turkey included establishing a customs union with a view to full membership. All other agreements, such as Cooperation Agreements, Preferential Trade Agreements (PTAs), and Non-Preferential Trade Agreements were based on the idea of partnership in economic development via trade.

The reason some Mediterranean countries were given associate membership and some only preferential trade agreements reflects the cultural, geographic, and political identity of the EC. Based on this identity, it was necessary to separate the European states potentially eligible for full membership from the countries that were not. Association became a mark of those who are eligible for full membership.[4]

TABLE 1

AGREEMENTS BETWEEN THE EEC AND THE MEDITERRANEAN COUNTRIES

Association Agreement	Cooperation Agreement	Preferential Trade Agreement	Non-preferential Trade Agreement
Greece 1961 Turkey 1963 Morocco 1969 Tunisia 1969 Malta 1970 Cyprus 1972	Israel 1975 Algeria 1976 Morocco 1976 Tunisia 1976 Egypt 1977 Lebanon 1977 Jordan 1977 Syria 1977 Yugoslavia 1980	Spain 1970 Israel 1970 Egypt 1972 Lebanon 1972 Portugal 1972	Israel 1964 Lebanon 1965 Yugoslavia 1970 Yugoslavia 1973

Source: Featherstone 1989

In 1972 the Community announced the 'Mediterranean Global Approach' which gave the aformentioned agreements closed with the MNCs a common framework. The most important clause in this approach was that manufactured exports of the MNCs to the EC (with some exceptions, such as textiles and steel), were provided free entry to the Community's markets. As the EC seemed to provide easier access for the MNCs exports, it was expecting preferences from the MNCs for its own exports. Based on the idea of 'reverse preferences', the EC closed free trade area agreements with Israel and Portugal in 1975 and 1976 respectively which provided free entry for the EC's industrial exports.[5] The earlier agreements with Cyprus, Malta, Spain, and Turkey also provided for some reciprocal concessions. All the other countries obtained free entry into the Community for their industrial products without reciprocity (European Documentation 1985).

The most important instrument of the economic cooperation between the EC and the MNCs are Preferential Trade Agreements (PTAs).[6] These were first signed with Greece and Turkey and then with the rest of the MNCs (Yannopoulos 1989, 66). The PTAs cover all manufactured goods (with, as previously noted, a few exceptions consisting of textile and steel) and only some selected items of agricultural products.[7] Imports of agricultural goods into the Community are not only controlled by tariffs but also, in the case of most products, by the system of minimum prices established under the Common Agricultural Policy (CAP) to protect domestic producers which has far more impact on imports of food than do tariffs. Even though the PTAs granted reductions in tariffs on the MNCs' main agricultural exports, they did not suppress tariffs completely, as with industrial goods (European Documentation 1985). Farmers in the southern regions of the EC strongly opposed any reduction of tariffs on fruits, vegetables, wine, and olive oil coming from the

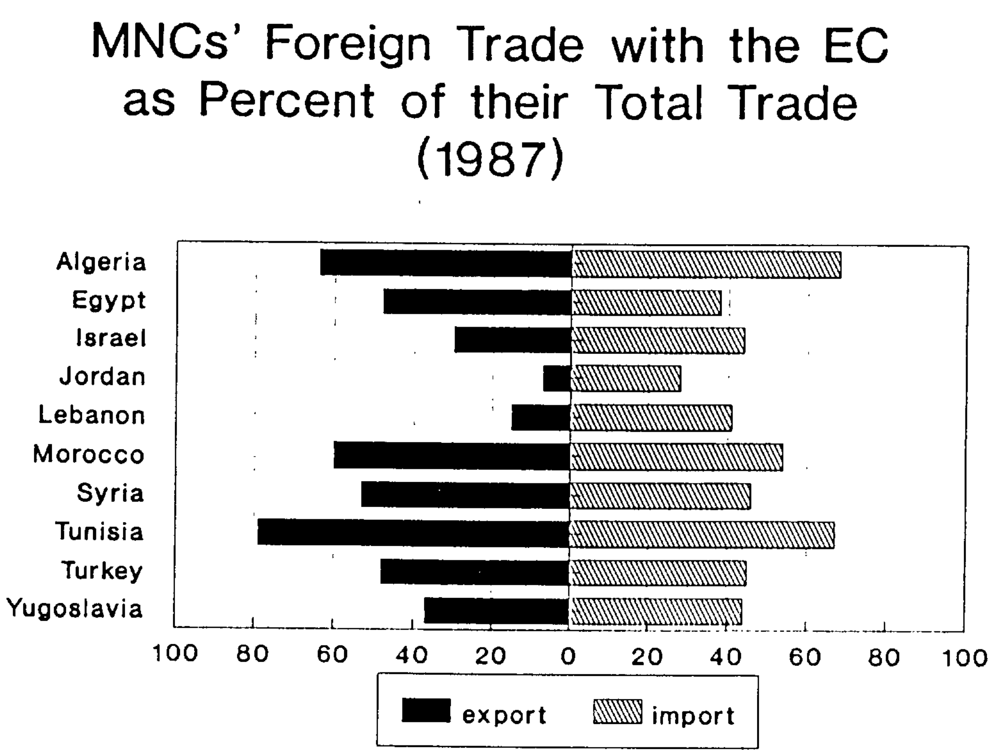
Mediterranean Basin (Hine 1985).

Criticism on the concept of the PTAs focuses on various aspects. McQueen (1976) argues that the PTAs "primarily fulfill the political purpose of contributing towards the greater stability and harmony of relations with an area directly affecting the security of the EC." Henig (1976) claims that "the only discernible principle underlying apparently motiveless acts of external policy lies in the desire to show the bona fides of the Community by demonstrating international goodwill." Economically, they are not effective for several reasons: First, since the level of relevant tariffs are generally low, the PTAs' significance in this kind of an environment is highly questionable. Secondly, despite the PTAs (which are simply reductions on the tariff level), non-tariff barriers could be introduced which, of course, eliminates the positive effects of the PTAs. Third, the export performances of developing countries such as the MNCs are shaped, to some extent, internally, depending upon their development strategies (inward- or outward-looking strategies) and the resulting exchange rate policies and other factors to such an extent that the PTAs would not make a significance contribution. One possible positive effect of the PTAs is that they might foster outward-looking policies (Weston et al. 1982 and Robertson 1976).[8] As seen, there has been a certain amount of scepticism concerning the effectiveness of the economic cooperation between the EC and the Mediterranean basin countries. The Mediterranean policy as a whole and its tools have been regarded as political, unorganized and an ".. uncoordinated mosaic of Mediterranean trade agreements" (Hine 1985).

III EFFECTS OF ECONOMIC COOPERATION ON THE MEDITERRANEAN NON-CANDIDATES

Without any doubt, the EC possesses a gigantic economic power in comparison to the MNCs, which indicates that the economic cooperation between these two groups is somehow more important for the Mediterranean countries than for the EC. Even though the EC's relevance for the MNCs as a trade partner varies among the Mediterranean countries, Figure 1 shows that the EC is the single most important trade partner for most MNCs.

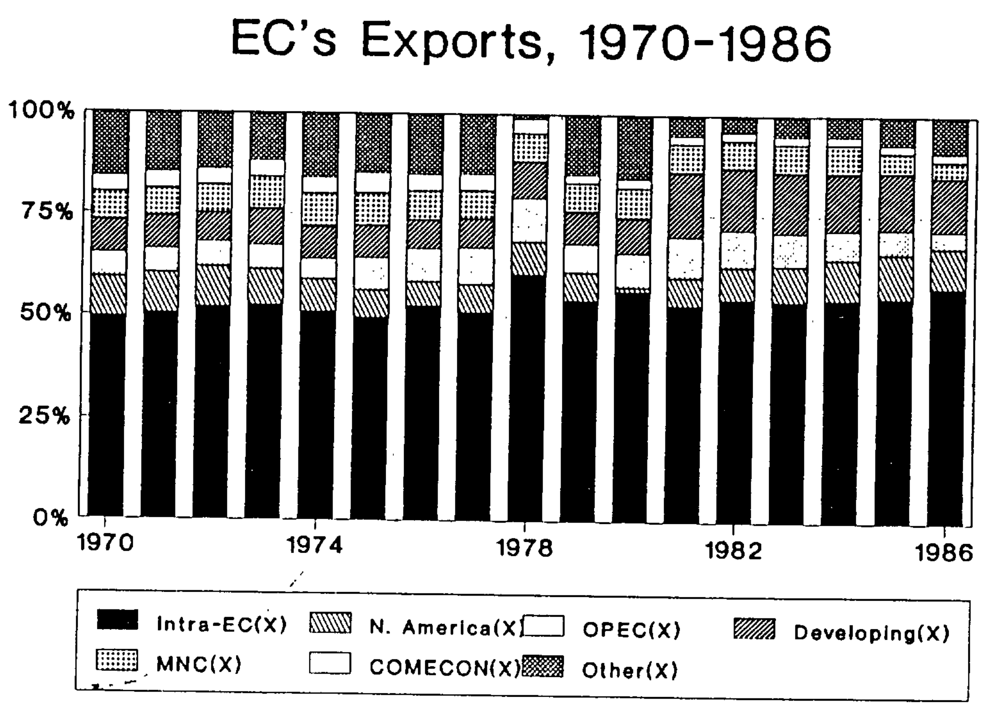
FIGURE 1



Source: IMF. Direction of Trade Statistics, 1988.

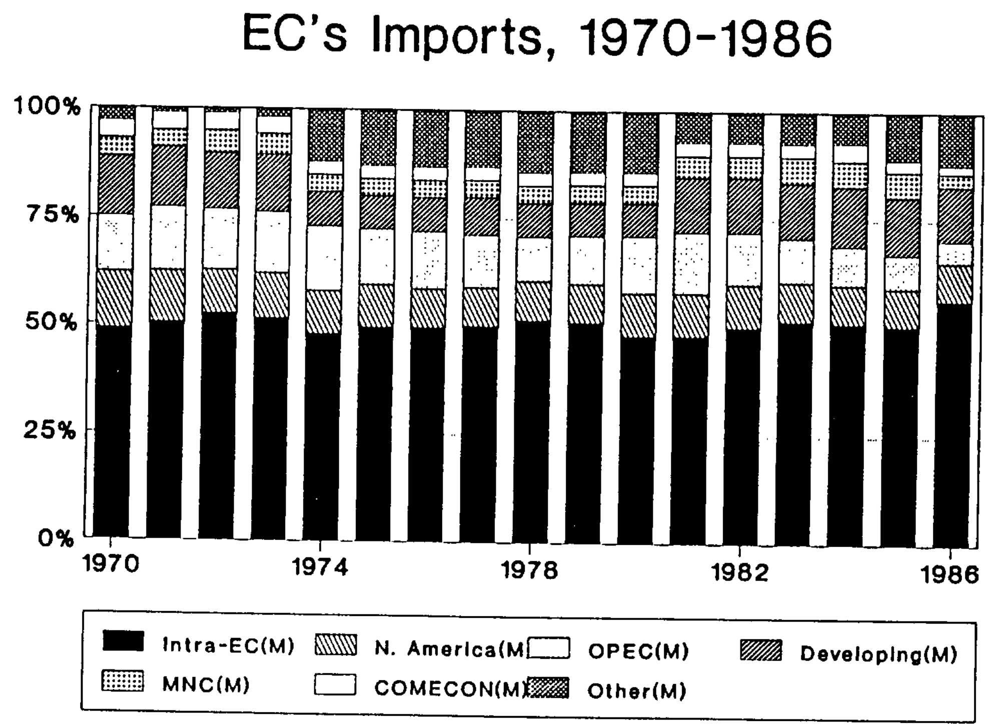
The EC's trade with the MNCs constitutes only a small percent of its total trade. Figures 2 and 3 indicate that intra-EC trade makes up more than two thirds of the EC's trade. Looking at the trend between 1969 and 1987, trade with OPEC comes second to the intra-EC trade. Trade with the MNCs is becoming less important for the EC.

FIGURE 2



Source: IMF. Direction of Trade Statistics Yearbook, 1975, 1981, and 1988.

FIGURE 3



Source: IMF. Direction of Trade Statistics, 1976, 1981, and 1988.

The structural characteristics of the MNCs' exports to and from the EC also shows an imbalance. While the Community's exports to the MNCs consists mostly of capital goods and vehicles, three fifths of the MNC's exports to the Community are oil and phosphates. For example in 1982, 60 percent of MNCs exports to the Community was oil, natural gas, and phosphates, 10 percent agricultural goods and processed food, 14 percent textile and apparel, and 16 percent manufactured goods (Commission of the European Communities 1985).

Has the economic cooperation between the EC and the MNCs improved the export performance of the MNCs? Have the tools of economic cooperation such as the PTAs been effective in increasing the MNCs' exports to the EC as planned? An answer to these questions is not easy to provide since the export performance of a country is influenced by two groups of factors: first, factors concerning the exporting country and second, factors concerning the trade partners of the exporting country. The first set of factors include the individual country's general development policy. Is it chiefly oriented toward export-promotion or import substitution and what exchange rate policies support either of these development strategies? Available capital, labor, and technology related factors influencing productivity and price are also considerations. Among the second set of factors, domestic availibility of the exported good, demand, and degree of protection in the importing country are important. The PTAs reduce the price of an exported product to some extent by reducing and/or eliminating protection on a certain product. However, as just mentioned, reducing protection and consequently the price of an exported good through the PTAs is only one aspect influencing the price of a product and the price of a product represents only one factor influencing the export performance.

Despite the problems associated with the assessment of the influence of the PTAs on the MNCs' exports, in the following, some measures will be adopted in an attempt to quantify the influence. Two possible trade effects of the economic cooperation are discussed: export expansion and export diversification effect.

Export expansion effect. This effect can be determined by employing the Index of Standardized Export Performance (ISEP) and comparing the export performance of the preference granted countries with some non-beneficiary countries (reference countries). In these calculations, two groups of developing countries are used: Asia and Latin America.[9]

$$ISEP = \frac{E'_{bg}}{E_{ng}} / \frac{E'_{br}}{E_{nr}}$$

Where:

ISEP - Index of standardised export performance

E - Rate of change of exports

b - Beneficiary countries (MNCs)

n - Non-beneficiary countries (reference countries; Latin American and Asean countries)

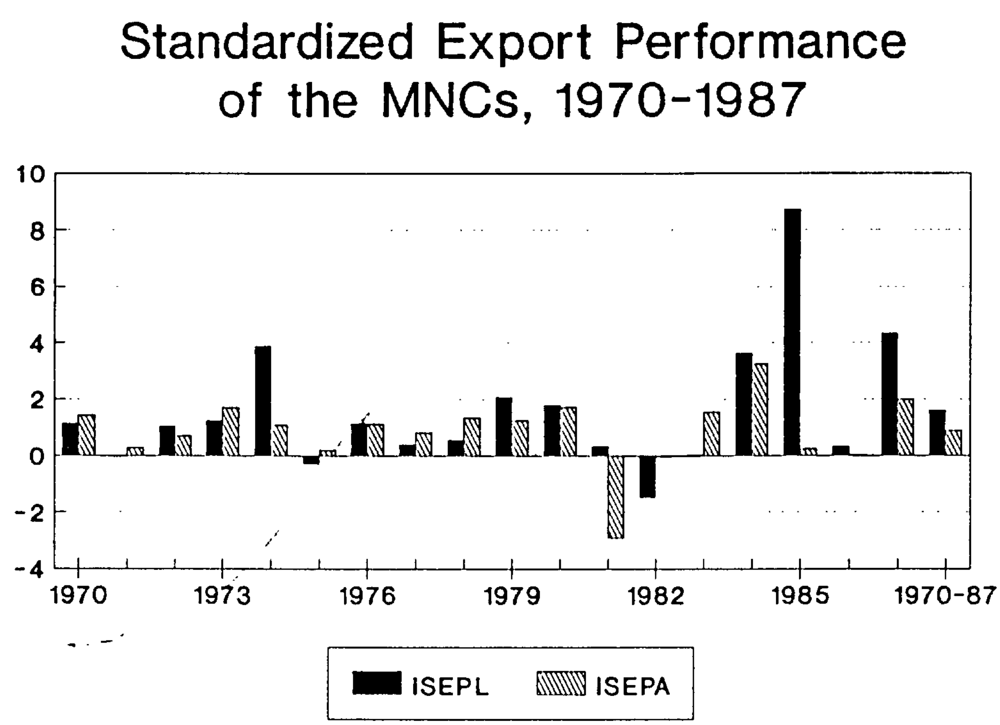
g - Preference granting country or trading block (EC)

r - Rest of the world markets

An ISEP greater than 1 indicates a significant expansionary impact on the export of beneficiary countries. The average index number for the period 1970-1987 in reference to Latin American countries is 1.5959. The same number in reference to Asian countries is 0.8843. Thus, the PTAs have had a significant export expansion effect in comparison to Latin American countries. As regards Asian countries, the PTAs have not had a significant impact.

Index numbers for the period 1970 and 1987 in reference to Latin American and Asian countries are shown in Figure 4.[10] Except for the years 1975, 1981, and 1982, significant expansionary impact on the MNCs' exports can be recognized.

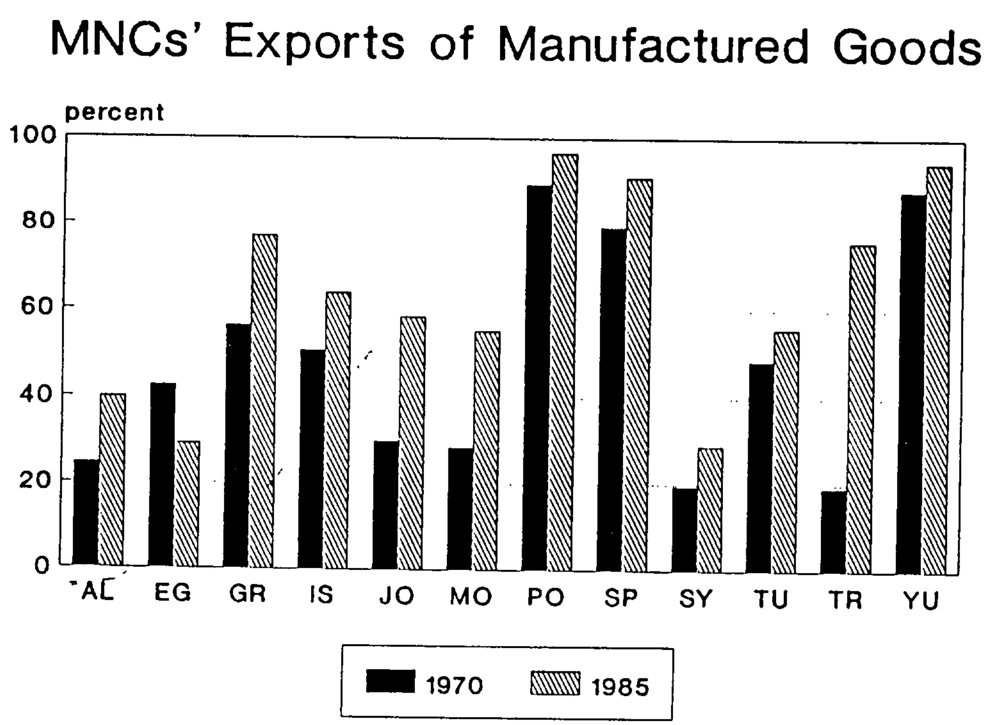
FIGURE 4



ISEPL: In reference to Latin American countries
ISEPA: In reference to Asian countries

Export diversification effects. The economic cooperation between the EC and the MNCs has caused a certain diversification in the MNCs' exports (Figure 5). Between 1970 and 1985, the percent of manufactured goods in some MNCs' exports increased substantially. Jordan, Morocco, and Turkey seem to have changed their export structure from an agricultural to an industrial one. MNCs such as Greece Israel, Portugal, Spain, and Yugoslavia started with a high share of manufactured goods in their exports. Algeria and Syria showed a moderate export diversification while the share of manufactured goods in Egypt's exports decreased.

FIGURE 5



Source: United Nations. Yearbook of International Financial Statistics, 1971 and 1986.

Despite the fact that PTAs granted to the MNCs have produced some export expansion and export diversification effects, some authors see problems associated with the PTAs. Pomfret (1986), for example, argues against the PTAs because of their discriminatory characteristics. Swimmbank (1988) adds that the system of PTAs is likely to become increasingly, rather than less, protectionist, especially in the case of sensitive products. Following the acceptance of Spain to the EC, the country expressed disagreement with the arrangements for exports of fruit and vegetables from the MNCs arguing that its own production of such goods would be in direct competition with these exports.

Another potentially negative effect of the PTAs lies in 'reverse preferences' that are provided by the MNCs for the exports from the EC. The question is whether the MNCs are 'forced' to import from the EC on less favorable terms, and whether the import eliminates domestic production with a potential comparative advantage (infant industry argument) (McQueen 1976).

IV EFFECTS OF THE MEDITERRANEAN ENLARGEMENT ON THE MEDITERRANEAN NON-CANDIDATES

The almost simultaneous return of Greece, Portugal, and Spain from dictatorships to democracies in the first half of the 1970s speeded their full-membership in the EC. As mentioned before, Greece entered the Community as a full member in 1981; Spain and Portugal followed in 1986.

The Mediterranean enlargement of the EC will have two different effects on the EC-MNC trade: First, a negative effect can occur considering the fact that the new entrants are important producers of Mediterranean type products. The EC's demand for these products may be satisfied to an important extent from the new entrants, instead of from the MNCs. Moreover, since the new entrants' agricultural and manufactured exports will enter the EC with little or no difficulty, they strongly represent a threat for the MNCs' exports.[11] Second, a positive effect can occur given the fact that the latest enlargement of the Community from EC-9 to EC-12 gives to the MNCs the opportunity to take advantage of three new markets. Before their accession in the EC, Greece, Spain, and Portugal enjoyed high tariff and non-tariff barriers which protected their domestic production.[12] As full-members of the EC, a gradual opening of their markets for the products from the MNCs will be inevitable. In the following, a possible market shrinking effect of the Mediterranean enlargement on the MNCs' exports to the Community is analyzed.

By employing an Index of Dissimilarity (I.D.), the extent of similarity between the export structure of the new entrants and the MNCs can be quantified. The results should indicate whether and to what extent the MNCs' exports are in direct competition with the exports of the new entrants.

$$I.D. = \frac{1}{2}\sum_{i-1}^{n} (Si_{ac} - Si_{bc}) \times 100$$

Where:

si: share of commodity i

ac: in a's exports to c (in an MNC's exports to the EC)

bc: in b's exports to c (in a new entrant's exports to the EC)

TABLE 3

DISSIMILARITY INDEXES BETWEEN THE EXPORT STRUCTURE OF THE NEW ENTRANTS AND THE MNCs, 1985 *

MNCs	GREECE	PORTUGAL	SPAIN
Algeria	61 (49)	52 (48)	60 (46)
Egypt	39 (15)	73 (33)	55 (15)
Israel	29 (33)	34 (32)	24 (21)
Jordan	21 (34)	38 (20)	32 (14)
Morocco	29 (14)	32 (28)	40 (3)
Syria	55 (17)	71 (31)	65 (39)
Tunisia	38 (16)	40 (38)	41 (22)
Turkey	.003 (11)	11 (27)	18 (21)
Yugoslavia	28 (27)	.03 (27)	.01 (.09)

Source: United Nations. Yearbook of International Trade Statistics, 1986.

* First index numbers are calculated based on the three main groups of goods: agricultural, mining, and manufactured. Index numbers in paranthesis show the dissimilarity between manufactured goods, using the following categories: food/beverages, textiles, wood, paper, chemicals, non-metal, basic metal, and metal manufacturing.

Comparing the proportion of various categories of goods, the index numbers range from zero, indicating identical proportional distribution, to 100, reflecting a totally opposite distribution. Table 3 show the index numbers. Taking the main three categories of exported goods (agricultural, mining, and manufacturing) into account, Greece represents a threat to a number of MNCs, with the possible exceptions of Algeria and Syria. Spain and Portugal's export structures are very similar to Turkey and Yugoslavia's. Except for these two, the mentioned new entrants indicate a moderately similar export structure to the other MNCs. However, if considering manufactured exports only, a different picture emerges. Overall low index numbers indicate that the proportion of various manufactured goods categories of the new entrants and the MNCs is dangerously close. For example, Greece represents a threat for Egypt, Morocco, Syria, Tunisia, and Turkey. Spain's manufactured exports appear to be very similar to Yugoslavia's manufactured exports. Portugal stays as a moderate threat.

Yannopoulos (1983) examined the similarity among agricultural exports between the new entrants and the MNCs, utilizing a similar index. His results indicate that Portugal is the least threatening country among the new entrants for the MNCs, even though high index numbers for Syria and Algeria indicate that Portugal's full-membership would be very threatening for them. Spain represents the most threatening new entrant for the MNCs as a major producer of Mediteranean products. Just by looking at the trend of the MNCs' exports to the EC, the importance of Spain's membership becomes evident. MNCs's share in the EC's imports dropped almost in half, from a little over 6 percent in 1985 to 3 percent in 1986, the year Spain became a full member of the EC. Greece, on the other hand, represents only a quasi threat.

We can conclude that the greatest trade displacement effects resulting from the second enlargement of the Community will be most apparent in the MNCs' agricultural and manufactured exports. Spain, strong in both these types of exports, will be the most threatening country for the MNCs.

V CONCLUSION AND FUTURE PROSPECTS

Economic cooperation between the EC and the MNCs has its problems. One of them is the unbalanced nature of the relationship between partners of different economic strength. Whereas the EC can certainly survive without the MNCs, one cannot say the same for the MNCs, given the relative size of their trade with the Community. This imbalance explains the difference in motivations for pursuing the relationship. The EC's motivation in this cooperation concerns mostly its historical and political aspects. The MNCs, however, have a vital economic interest in this relationship.

The three decade old economic cooperation between the EC and the MNCs has certainly helped the MNCs to expand and diversify their exports. The moderately positive effects of this cooperation seems threatened by the entrance of Greece (1981), Spain, and Portugal (1986). These three countries as producers of Mediterranean type agricultural products have replaced some agricultural exports from the basin to the Community. Not only in their agricultural structure but also in their industrial structure, both the Mediterranean basin and the new entrants have similar structures (heavy representation of textile and apparel industry).

The global economy has also been influential in this cooperation.

Following the economic boom decade of the 1960s, recession in Europe in 1974 and 1979 caused problems for the relationship. The introduction of some trade restrictions on the side of the EC meant breaking promises to the MNCs; a situation which deteriorated the relationship.

The effectiveness of the cooperation between the EC and the MNCs will depend on the EC's committment to the Mediterranean basin. Until now, the Mediterranean policy of the EC has been not well defined. It is likely that a clear definition will be further delayed during the period in which the EC absorbs and defines the total economic impact brought by the new entrants.

REFERENCES

COMMISSION OF THE EUROPEAN COMMUNITIES. The Community and the Mediterranean Countries: Guidelines for Economic Cooperation. Brussels: Commission of the European Communities, 1985.

EUROPEAN DOCUMENTATION, The European Community and the Mediterranean. Luxembourg: Office for Official Publications of the European Communities, 1985.

FARRANDS, C. "Textile Diplomacy: The Making and Implementation of European Textile Policy, 1974-1978." Journal of Common Market Studies XVIII.1 (1979): 22-39.

FEATHERSTONE, K. "The Mediterranean Challange: Cohesion and External Preferences." The European Community and the Challange of the Future. Ed. Juliet Lodge. New York:

St. Martin's Press, 1989. (186-201).

GINSBERG, R.H. "The European Community and the Mediterranean." Institutions and Policies of the European Community. Ed. Juliet Lodge. New York: St. Martin's Press, 1983. (154-167).

HENIG, S. "The Mediterranean Policy." The EEC and the Mediterranean Countries. Cambridge (U.K.): Cambridge University Press, 1976. (305-325).

HINE, R.C. The Political Economy of European Trade: An Introduction to the Trade Policies of the EEC. New York: St. Martin's Press, 1985.

INTERNATIONAL MONETARY FUND. Direction of Trade Statistics. Washington, D.C.: International Monetary Fund, 1969-1973, 1981, and 1986.

MCQUENN, M. "Some Measures of the Economic Effects of Common Market Trade Preferences for the Mediterranean Countries." The EEC and the Mediterranean Countries. Eds. A. Shlaim and G. N. Yannopoulos. Cambridge (U.K.): Cambridge University Press, 1976. (13-32).

MISHALANI, P. "The Maghreb and Mashreq Countries." The Second Enlargement of the EEC. The Integration of Unequal Partners. Eds. D. Seers and C. Vaitsos. New York: St. Martin's Press, 1982. (193-215).

POMFRET, R. Mediterranean Policy of the European Community. A Study of Discrimination in Trade. New York: St. Martin's Press, 1986.

ROBERTSON, D. "Mediterranean Policy in a World Context." The EEC and the Mediterranean Countries. Eds. A. Shlaim and G.N. Yannopoulos. Cambridge (U.K.): Cambridge University Press, 1976. (327-346).

SWIMMBANK, A. and C. RITSON. "The Common Agricultural Policy, Custom Unions and the Mediterranean Basin." Journal of Common Market Studies XXVII.2 (1988): 97-112.

UNITED NATIONS. Yearbook of International Financial Statistics. New York: United Nations, 1986.

----, Yearbook of International Financial Statistics. New York: United Nations, 1971.

WESTON, A. et al. The EEC's Generalised System of Preferences. Evaluation and Recommandations for Change. London: Overseas Development Institute, 1980.

WESTON, A. et al. "Who is More Preferred? An Analysis of the New Generalised System of Preferences." EEC and the Third World: A Survey (2). Hunger in the World. Ed. C. Stevens. London: Hodder & Stoughton, 1982. (73-86).

YANNOPOULOS, G. "Prospects for the Manufacturing Exports of the Non-Candidate Mediterranean Countries in a Community of Twelve." World Development 12.11/12 (1984): 1087-1094.

----, "Patterns of Response to EC Tariff Preferences: An Empirical Investigation of Selected Non-ACP Associates." Journal of Common Market Studies XXV.1 (1986): 15-30.

----, "The Effects of Tariff Preferences on Export Expansion, Export Diversification and Investment Diversion: A

Comparative Analysis of the Iberian and other Mediterranean Economies." European Integration and the Iberian Economies. Ed. G. Yannopoulos. New York: St. Martin's Press, 1989. (66-86).

ENDNOTES

1. Other than the Mediterranean Basin, the Community has relations to the so-called ACP-countries (African, Caribbean, and Pacific), mostly former colonies of European powers. The Lome agreement was signed in 1975 to organize and encourage economic coperation between the Community and former colonies of its members in Africa, the Caribbean, and the Pacific. While in 1975 the Lome agreement included 44 ACP-countries, their number had increased to 68 by 1990.

2. Various factors initiated the change from bilateral to multilateral. First, bilateral relations as an extension of colonial relations were becoming less desirable on grounds of the new image the EC wanted to reflect as an 'equal' partner. Also, different treatment of the MNCs by different European countries may have led to rivalries among the MNCs. Second, preferential trade agreements closed with some of the MNCs were in violation of the rules of the General Agreement on Tariffs and Trade (GATT), unless the ultimate goal of these agreements was to establish a free trade area. Third, during the 1960s, in the frame of the United nations Conference on Trade and Development (UNCTAD), developing countries had pressured industrialized

countries to gain easier access to their markets (European Documentation 1985).

3. Even though Jordan is not on the Mediterranean Sea, due to the close relations of the country with the United Kingdom, it was included in the MNCs.

4. Article 237 of the Treaty of Rome states that democratic European countries with "advance" economies should be members of the Community (Henig 1976). Even though the degree of economic fitness has been the most mentioned criteria for the membership to the Community, in retrospective, a democracy in Europe with certain economic weaknesses would have a good chance to be a part of the EC (particularly in the cases of Portugal and Greece). Based on this assumption, an association agreement with Greece is understandable because of Greece's geographic, historic, and cultural ties with Europe. The question remains, however, why the EC closed an association agreement with Turkey with a possibility of full membership, in spite of the fact that Turkey's cultural, economic, and political systems were (to some extent, still are) believed to be incompatible to Western Europe. It can be argued that, when Turkey applied to the EC in 1959, Europe and the remainder of the world were deeply involved with the Cold War and every ally (especially, a large buffer state) against the Soviets was welcomed.

5. The United States demonstrated strong opposition to the principle of reciprocity which was (and is) viewed as an obstacle to the GATT rules. A likely outcome of the preferences was

considered to be a situation in which U.S. exports to the Mediterranean Basin are hurt because the countries in the Basin are, to some extent, obliged to import from the EC. As reverse preferences discriminate against developed countries, they also discriminate against suppliers from developing countries (Robertson 1976). Another potential problem resulting from reverse preferences is that they could setback the Mediterranean countries' industrialization plans (Hine 1985).

6. The PTAs can be placed in the context of the Generalized System of Preferences (GSP), an idea that goes back to 1964 when the first United nations Conference on Trade and Development (UNCTAD) was held. Then, the GSP was introduced in an effort to encourage industrialization in developing countries by providing their exports easier access to the markets of developed countries (Weston et al. 1982).

7. Export goods of the MNCs that could be exempt from PTAs are unfortunatly their most important export items, such as textiles. The EC's textile policy has been a highly controversial subject. While some believe that the textile policy of the EC should protect the producers and consequently jobs in the member countries, others argue that the policy puts a lot of constraints on the most important export goods of the MNCs, therefore, on their development. Looking at the EC's side of the argument, we see that textiles and the apparel industry are still at the top of European industry, employing almost 3 million people who represents 10 percent of the industrial workforce.

Even though in the last 20 years the number of jobs in this sector has decreased by half, the textile and apparel industries are still very important.

To give an overview on textile agreements: the Long-Term Agreement (LTA) was signed in 1962 in order to restrict the flow of low cost cotton goods from Third World countries. The USA also pushed the agreement very hard to protect their troubled textile and apparel industries. Despite strong criticism from developing countries, the LTA lasted until 1973 when it was replaced by the Multi Faser Agreement (MFA). The MFA covered a broad range of fibres and textiles. While it gave developed countries the possibility to protect themselves against uncontrolled imports, it also gave developing countries a possibility of increasing their textile sales. In 1977, the MFA was renewed though it brought substantial restrictions upon the textile and apparel exports of developing countries (Farrands 1979).

Both agreements (LTA and MFA) are more or less global agreements whose parties are the GATT Textile Committee. Europe, the USA, Japan, and developing countries are represented in this committee. In the case of the EC, some voluntary agreements have been made with the MNCs to control their textile and apparel exports to the Community. These voluntary agreements have introduced a system of quotas which are supposed to limit MNCs exports of textile and apparel. However, it has been very difficult to keep the quotas. In 1978, for example, Portugal enjoyed an exceptional status because of its return to democracy which made a strong economy very important. In the mid-1980s, Turkey exceeded quotas, and some unilateral controls were imposed on the country's textile and apparel exports.

8. The EC renewed its GSP scheme in 1981 in an attempt to liberalize and simplify the system. However, as a result of the pressure exercised by various groups of interest in the EC countries, this goal could not be achieved. Weston (1982) argues that the GSP scheme of the Community should be more "transparent and secure" for the developing countries.

9. Latin American countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Equador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. Asian countries: Afghanistan, Bangladesh, Brunei, Burma, Khmer, China, Hong Kong, India, Indonesia, Korea, Laos, Malaysia, Nepal, Pakistan, Philippines, Singapore, Thailand, and Vietnam.

10. Yannopoulos (1986) calculated the index for the period 1970-1979 using two reference groups: the first reference group consists of Asean countries, Hong Kong, South Korea, Taiwan and the whole of Latin America. The second reference group includes Asean countries, Hong Kong, South Korea, Taiwan, Brazil and Mexico.

11. Spain represent an important threat because the country is twice as big as Greece and Portugal together. Also, Spain exports more non-fuel products to the Community than all the MNCs together (European Documentation 1985).

12. Non-trade effects of the Mediterranean enlargement on the MNCs: first, the enlargement would effect labor migration from the MNCs to the EC, and depending upon the extent of the effect, workers' remittances which are an important item in the balance of payment of the MNCs would drop. Second, with declining demand for labor from the MNCs, unemployment would increase in the MNCs. Third, the EC's investment and aid program would weaken after the Mediterranean enlargement (Mishalani 1982).