Divergence in the Mediterranean. The Economic Relations Between the EC and the Arab Countries in the Long 1980s

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The patterns of trade and investment between the European Communities (EC) and the Mediterranean Arab countries during the 1980s were closely anchored to the international dynamics of oil prices. Between May 1979 and August 1980 the world price of oil rose from 18 US dollars per barrel to 39.5 US dollars at current value, whereas in 1983 it subsequently fell from around 30 US dollars per barrel to just 12.6 US dollars per barrel in March 1986.[1] Respectively, the GDP annual growth of Middle Eastern and North African countries as well as that of Western Europe declined significantly as well. Such a high volatility seriously affected the economies of the Arab countries in the Middle East and North Africa (MENA) because it reduced the funds for the agro-industrial development programmes as well as the social welfare systems throughout the region. These were, indeed, necessary to face the challenges of demographic transition and integration into the restructuring of the world economy.

The oil crisis in the mid-1980s and relative failure to manage its dynamics showed that the re-balancing of relations between the oil exporting countries of the "South" and the consumer countries of the "North" which occurred in the previous decade was, at best, partial and temporary. It also showed that the industrialized countries of the North still had the upper hand in influencing the patterns of global trade and finance which, in turn, deeply affected the energy markets. It might also be argued that the long 1980s showed all the negative sides of the 1970s: recession, public deficits and debt crisis intertwined with major conflicts throughout the Middle East and North Africa.[2]

The economic and political crisis of the Arab world in the 1980s impacted heavily on the relations with the EC: on the one hand, the EC could restore its pre-1970s, traditional economic predominance in the Mediterranean basin, now framed within the new neoliberal doctrine; on the other hand, the Mediterranean basin lost the political and economic relevance it had enjoyed previously, and was thus relegated to the marginality of "security" concerns. Not surprisingly, in the 1980s the North and South shores of the Mediterranean basin entered those patterns of economic divergence that still endure today.

1. British Petroleum, *Statistical Abstract*, 2014.
2. It would be sufficient to mention the Israeli invasion of Lebanon (1982-1984), already plunged into civil war since 1975, the first Palestinian Intifada (1987-1991); the Iran-Iraq War (1980-1988), as well as the bid for power by the forces of Political Islam, notably in Iran (since 1978), Egypt (1977-1981) and Syria (1979-1982).

An Appraisal of the EC-Arab Relations in the 1970s

The relations between the Middle East countries and the EC during the 1970s were basically shaped on the criteria of security: security for the energy flows towards the industrial countries of Western Europe; security of access to the fast-growing consumption markets of the Arab world; security against the possible spill-over of the armed conflicts in the Middle East, and especially of the Arab-Israeli one.

As for politics and diplomacy, given that the Western European countries "outsourced" the strategic and military presence in the Mashreq[3] to the US since 1956-1958, both Arabs and Europeans knew well in advance that the EC members could not, and actually did not want to intervene in the Arab-Israeli conflict.[4] The only field the Europeans, both as single states and the EC, engaged effectively was the economy, because they were the main partners of most Arab states and Israel. In 1978, the EC Commission stated bluntly:

> "Even if Europe cannot play an important role in resolving the conflict, it could still have a very significant role to play once it is solved. First, by being one of the guarantors to such a settlement. And, secondly, by helping prepare the basis for the economic development of these countries".[5]

Actually, this was the basic rationale of the EC/EU policy on the Arab-Israeli conflict for the following decades.

Focusing on the political-economic dimensions of security in the Mediterranean, already in 1972 the EC Commission wrote that between EC member countries and their Mediterranean partners:

> "leur interdépendance est la condition, non seulement de la garantie de la sécurité extérieure, mais aussi celle de l'approvisionnement intérieur. Il s'agit en l'occurrence de créer des relations fondées sur le principe de la coopération excluant la dépendance".[6]

Since then, the EC authorities advanced the project for the Global Mediterranean Policy, which is worth mentioning because it set Euro-Mediterranean relations within the framework of "embedded liberalism".

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3. The Mashreq, meaning in Arabic "the East", was a category used in French Orientalism to include the countries East of the Suez Canal and North of the Arabian Peninsula: Palestine/Israel, Lebanon, Syria, Jordan, Irak and Kuwait. Later on, it was widened to include Egypt and the Arabian Peninsula.
4. H. Maull, *The Strategy of Avoidance: Europe's Middle East Policies after the October War*, in: J. C. HUREWITZ, *Oil, the Arab-Israeli Dispute and the Industrial World*, Westview Press, Boulder CO, 1976, pp.110-137; D. ALLEN, A. HAURI, *The Euro-Arab Dialogue, The Venice Declaration, and Beyond: the Limits of a Distinct EC Policy, 1974-89*, in: D. MÖCKLI, V. MAUER (eds), *European-American Relations and the Middle East. From Suez to Iraq*, Routledge, London, 2011, pp.93-108.
5. HAEC [Historical Archives of the European Communities], X/34/78-EN, 169/78, Commission of the European Communities, Information Directorate-General, The European Community and the Arab World, Brussels, 1978, p.27.
6. HAEC, SEC (72) 3111 Final, Commission des Communautés Européennes, Les relations entre la Communauté et les Pays du Bassin méditerranéen, Communication de la Commission au Conseil, 27.09.1972, p.3.

> "La libre circulation des marchandises ne pourrait en effet constituer, à elle seule, le fondement d'une politique méditerranéenne propice à la stabilité et à la prospérité de la région. Elle ne saurait pallier la nécessité d'une véritable coopération contractuelle, comportant des actions cohérentes en matière de finance, de technologie, d'énergie, d'emploi, d'environnement; c'est dans la voie d'une telle coopération que les Communautés doivent s'engager décisivement, et le plus tôt possible".[7]

Accordingly, multilateralism integrated trade liberalization with the cooperation to development.[8] The energy shock of 1973-74 marked the apex of Third Worldism and "developmental politics", and Arab Countries stood at the forefront of the movement for the reform of North-South relations: namely, the contribution of industrial countries to the agro-industrial development of the so-called "global" South.[9] EC members avoided engaging in a structural reform of the larger North-South economic relations and, instead, opted for *ad hoc*, privileged, concessions to the Arab neighbours, thus fostering cleavages in the already fragmented "global" South.[10]

Essentially based on an intergovernmental, multilateral approach, the Euro-Arab Dialogue inaugurated in 1974 engaged the EC to set up a "trilateral" cooperation to development between Europeans, Arab oil-exporters and Arab non-oil exporters: in theory, mostly to the benefit of the Arab non-oil exporters.[11] Maghreb countries and Israel in 1976 and Mashreq countries in 1977 signed the Cooperation Agreements with the EC, whose unlimited duration gradually opened up the European common markets to Arab and Israeli products and, more significantly, provided them with technical and financial aid. Access to the EC market for agricultural and industrial products proved far more limited than expected. However the Cooperation Agreements implemented the "embedded liberalism" approach of 1972.[12] Eventually, such

7. HAEC, SEC (72) 3111 Final, op.cit., p.6.
8. E. CALANDRI, *L'eterna incompiuta: la politica mediterranea tra sviluppo e sicurezza*, in: E. CALANDRI, *Il primato sfuggente: L'Europa e l'intervento per lo sviluppo (1957-2007)*, Franco Angeli, Milano, pp.89-118.
9. Fourth Conference of Heads of State or Government of Non-Aligned Countries, Algiers 05-09.09.1973; UN Yearbook 1974, pp.324-326; UN Yearbook 1976, pp.394-395; G. RIST, *Le Développement. Histoire d'une croyance occidentale*, Presse de la Fondation nationale, Paris, 1996, pp.145 and 234.
10. HAEC, A. ROMOLI – Rapporteur, *The EEC's External Relations – Stocktaking and consistency of Action. A Study*, Economic and Social Committee of the European Communities, Brussels, 27-28.01.1982, pp.37-47; G. GARAVINI, *L'arma del petrolio: lo «shock» petrolifero e il confronto Nord-Sud*, and F. PETRINI, *Il fallimento dell'alternativa europea: la Conferenza di cooperazione economica internazionale (1975- 1977)*, both in: D. CAVIGLIA, A. VARSORI (eds), *Dollari, petrolio e aiuti allo sviluppo. Il confronto Nord-Sud negli anni '60-70*, Franco Angeli, Milano, 2008, pp.79-108, 109-170.
11. H. JAWAD, *Euro-Arab Relations. A Study in Collective Diplomacy*, Ithaca Press, Reading, 1992, pp.259-260; S. AL MANI', *The Euro-Arab Dialogue. A Study in Associative Diplomacy*, Pinter, London, 1983; OECD, Micro OCR-IV-3, *L'aide des Pays de l'OPEP. Les efforts et les politiques des pays membres de I'OPEP et des organismes d'aide crées par eux*, Paris, 1983.
12. M. TRENTIN, *The Distant Neighbours and the Cooperation Agreements between the EEC and the Mashreq, 1977*, in: E. CALANDRI, A. VARSORI, D. CAVIGLIA (eds), *Détente in Cold War Europe: Politics and Diplomacy in the Mediterranean and the Middle East*, I.B. Tauris, London, 2013, pp.221-232.

partial overtures did not alter the balance of power in favour of the industrial countries and, arguably, accelerated the consolidation process of the EC.[13]

For the Western Europeans, there was a very clear reason to engage in dialogue and economic negotiations with the Arabs. As stated in 1978, the EC Commission recognized that

> "the countries of the Arab League are now the most important trading partners of the European Communities. This fact alone is enough to demonstrate the crucial importance of the relations between these two groups of countries".[14]

Crude oil made nearly 90 per cent of Arab sales to the EC in the years from 1975 to 1979 and, since 1974, most EC members registered deficits in their balance of trade with Arab oil-exporting countries.[15] From 1972 to 1978, the Gulf States and Libya accumulated surpluses of 5.7 up to 20 billion ECU in 1972 and 1974, respectively. Such EC deficit declined to 9.8 billion ECU in 1978 but, in parallel with the second oil shock, it rose again to 16 billion ECU in 1979 and 23 in 1980. Though this latter deficit proved lower at nominal and real levels compared to 1974, it was still a staggering signal for the EC authorities.[16] On the contrary, non-exporting countries continued to suffer from crony rising deficits with the EC: from 768 million ECU in 1974 to 5 billion ECU in 1979. Morocco and Tunisia could increase their exports of industrial goods, but the massive imports of capital, intermediate and consumption goods far exceeded the value of mineral, agricultural or textile exports, as well as migrants' remittances or European aid. As for the financial cooperation, the European Investment Bank presided over the loans to the Arab Mediterranean Countries and, until 1981, committed 382 million EUA for "economic infrastructure and agricultural projects and [for] financing small and medium-scale industrial ventures through development banks".[17] Even Egypt, whose peace with Israel and allegiance to the West in the Cold War was rewarded with massive injection of capitals, could not balance the deficits with the EC.

As for the 1970s, two basic conclusions could be drawn. Firstly, in strategic terms, once they could secure the flow of "Arab" oil, the EC still had a major advantage

13. D. BASOSI, *Finanza e petrolio. Gli Stati Uniti, l'oro nero e l'economia politica internazionale*, Edizione Studio LT2, Venezia, pp.116-124; G. GARAVINI, *After Empires, European Integration, Decolonization and the Challenge from the Global South, 1957- 1986*, Oxford University Press, Oxford, 2012, pp.190 and 249.
14. HAEC, X/34/78-EN, 169/78, Commission of the European Communities, Information Directorate-General, *The European Community and the Arab World, Europe Information Development*, Brussels, 1978, p.3.
15. HAEC, DE 38/1982, Commission of the European Communities, Directorate General for Information, *The European Community and the Arab World*, Brussels, 06.1982, pp.12-15.
16. Eurostat, Monthly Trade Bulletin reported in HAEC, X/278/80-EN, Commission of the European Communities, Information Directorate-General*, The Development of Trade Between with the European Community and the Arab League Countries*, Brussels, 1980, pp.27; HAEC, DE 38/1982, op.cit., p.14.
17. HAEC, European Investment Bank, Publications, *Financing Outside the Community. Mediterranean Countries*, 10.1978, p.2. The EUA value ranged around 1,25 US dollars between 1974 and 1979, and loans for Arab countries from EIB own resources attached a 2% interest rate.

over the Arab economies as a whole.[18] Secondly, if proximity to Europe and huge trade volumes with the EC were common features to all Arab countries, oil and energy resources were not, and this natural endowment further diversified the patterns of trade between the EC and the Arab world. Ultimately, proximity to the EC market had not develop into a "comparative advantage" for the export-led industrialization of the Arab Mediterranean countries, though the Directorate-General for Information of the EC Commission still claimed the contrary in 1982.[19]

The Political Economy of Crisis in the Middle East and North Africa

The mobilization of popular masses that led to the toppling of the Iranian Shah between 1978 and 1979 and the ensuing invasion of Iran by Iraq sparked a new rise in oil prices: from January 1979 to April 1980 the price of a barrel of oil jumped from 14.8 to 39.5 US dollars.[20] Since 1979, the political dynamics empowered by the previous "oil shocks" further radicalized. Eventually, Egypt could sign the peace agreement with Israel and recover sovereignty over the Sinai Peninsula. In doing so, it went against the diplomatic consensus of the Arab League and was consequently ousted from the organisation until 1984. Once Egypt was out, other states claimed leadership in the Middle East: Iraq had a large and well-supplied army and Saddam Hussein did not hide his regional ambitions; Saudi Arabia enjoyed its oil wealth and Islamic legitimacy; the revolutionary zeal of the Ayatollah Ruhollah Khomeini's leadership moved Iran out of its nationalist posture to embrace the rest of the Middle East in the name of Political Islam; Syria was locked in a struggle with Israel and concerned with the management of the civil war in Lebanon; Muammar Gadhafi's Libya entered international politics thanks to capital investments and the sponsorship of radical, even terrorist, revolutionary groups. Quite differently, other countries tried to insulate themselves from such events. Sensing the cracking of the Third World movements, Algeria focused on domestic development; Morocco and Tunisia also tried to insulate themselves from radicalism, either socialist or Islamist, and focused on domestic development by engaging in structural reforms and partnership with the EC. In general, there was a sensible shift from the Mediterranean to the Gulf in the axis of Arab politics, with long-term consequences as for the adoption of the patterns of develop-

18. The improvement was calculated on the export-import ratio, namely the extent to which EC exports cover imports from the Arab League states, which rose from 46 to 72 between 1972 and 1979. Again, the EC scored the best results against both Maghreb and Mashreq non oil-exporters (HAEC, X/278/80-EN, op.cit., p.29).
19. HAEC, X/85/1982, DE 36, Commission of the European Communities, DG for Information, *Cooperation Agreements between the EEC and the Maghreb Countries*, Brussels, 02.1982, pp. 12-13.
20. British Petroleum, *Statistical Abstract*, 2014.

ment and the conflict between secular and Islamist forces.[21] Ultimately, any state leadership could attain neither dominion nor leadership in the region because of two main factors: on the one hand, the success of counter-hegemonic alliances to thwart any major bid for leadership; on the other hand, the intervention of foreign powers in order to prevent the emergence of a regional leadership which could jeopardize their presence and assets.[22]

In early 1982 oil prices began to drop, and between 1985 and 1986 prices fell sharply. Different factors reinforced this new trend: first and foremost, the reduction in consumption by the industrial economies that had been facing recession since late 1970s; secondly, the concomitant discovery and exploitation of new oil fields across the globe. Last but not least, intra-OPEC rivalry over the management of production quotas, market shares and prices, where Iran and Iraq pressed for higher prices to sustain their war economies at the expense of Saudi Arabia and other Gulf exporters, thus jeopardizing any sort of coordination or discipline among partners.[23] As the Western industrial world struggled with recession and stagnation, oil production far exceeded consumption. In its unparalleled position of "swing producer", Saudi Arabia could live up to lower oil prices, and eventually deployed its full production capacity of 10.5 million barrels a day: international oil prices thus fell from 30.8 US dollars per barrel in November 1985 to 12.6 in March 1986, driving out its rivals and leading them into recession.[24]

The Arab oil-exporters of the Middle East and North Africa now faced the sharp decline of their export revenues whereas their imports slightly declined or even increased until 1994.[25] On the whole, Arab states suffered from deficits in the current accounts of their Balance of Payments. The most remarkable worsening affected the Arab oil-exporters, whose balance of payments moved from a surplus of nearly 86 billion US dollars in 1980 to a deficit of 4.5 billion US dollars in 1986. They experienced a temporary rebound to surplus in 1989 and 1990 (10.4 billion US dollars), only to fall back into a staggering deficit of 52.5 billion US dollars in concomitance with the US-led war against Iraq in 1991, and the deficit remained at 3 billion US dollars until 1995. The Arab non-oil exporters continued to register minor deficits in trade accounts from 1.5 billion US dollars in 1980 to 3.8 billion US dollars in 1995,

21. A.H. DESSOUKI, *The New Arab Political Order: Implications for the 1980s*, in: M. KERR, Y.EL SAYED (eds), *Rich and Poor States in the Middle East. Egypt and the New Arab Order*, Westview Press, Boulder CO, 1982, pp.319-347; G. CORM, *Le Proche-Orient éclaté*, Gallimard, Paris, 2003, pp.409 and 558.
22. R. HINNEBUSCH, *The Middle East in World Hierarchy: Imperialism and Resistance*, in: *Journal of International Relations and Development*, 14(2011), pp.233-235.
23. F. PARRA, *Oil Politics. A Modern History of Oil*, IB Tauris, London, 2014, p. 214.
24. British Petroleum, *Statistical Abstract*, 2014, op.cit.
25. UNCTAD Statistical Database, *Export of good and services, 1980-1995* and *Import of goods and services, 1980-1995*, Arab Countries, US Dollars at current prices and current exchange rates in millions.

and never scored any surplus except for in the period of 1990-1991.[26] As for Foreign Direct Investments (FDI), Arab countries and Iran never attracted much interest, and only between 1980 and 1986 could the oil-exporters enjoy FDI for 5-10 billion US dollars.[27] The purchasing power of the Arab World was severely curbed, especially for oil-exporters, which had been the main driver of growth and internationalization over the previous decade. The redistribution of oil-rents through aid and official investments between the Arab Gulf states and their "poor" neighbours in the region fell sharply from 8.2 billion US dollars to 4.3 billion US dollars in 1980 and 1984, respectively. For example, Saudi Arabia and Kuwait, by far the largest donors in the region, cut their aid to development by 49 and 72 per cent respectively between 1980 and 1988.[28]

From 1982 on, the economies of the Middle East and North Africa entered a prolonged recession. Even the oil producers could not finance all their development programmes, and had to tighten up public spending. Investments in infrastructure, industry and agriculture were targeted before current spending on social services because the latter categories were essential to the regimes' survival: first of all, because of the nature of the authoritarian social contract between ruling elites and the popular masses; secondly, because the Arab countries faced the challenge of demographic transition. From 1980 to 1987, the population of the Arab world grew by 25 per cent, from 162 to 202 million of people, and in 1981 the urban population exceeded the rural one for the first time. From this perspective, services were provided without creating many job opportunities.[29] Between 1980 and 1989 the real GDP per capita for all MENA countries declined from 7161 to 5953 US dollars, and recovering at 7040 US dollars only in 1996. The non-oil exporters remained stuck around at 4400 US dollars per capita. The magnitude of the demographic change imposed severe constraints on the reduction of public spending for health, education and food subsidies and, in general, for all imports, except for arms.[30]

The deficits in the balance of payments were funded by the state, which, in turn, had to collect money from the international financial markets. As a result, the long-term outstanding debt of all Middle East and North Africa increased from 15 billion

26. UNCTAD Statistical Database, *Balance of payments, Current account net, annual, 1980-1995*, US Dollars at current prices and current exchange rates in millions. Iran included the respective values stood at 84 and 9,7 billion US$ in 1980 and 1986; 10,7 billion US$ in 1990. Contrary to the Arab countries' deficits, Iran could strike a surplus of 5 and 3,3 billion US$ in 1994 and 1995.
27. UNCTAD Statistical Database, *Inward Foreign Direct Investments Flows, 1980-1995*, US Dollars at current prices and current exchange rates in millions.
28. R. OWEN, S. PAMUK, *A History of Middle East Economies in the Twentieth Century*, I.B. Tauris, London, 1998, Table 9.6, p.270; M. ROUIS, *Arab Development Assistance*, MENA Knowledge and Learning, Quick Notes, World Bank, Washington DC., 28(2010).
29. A. RICHARDS, J. WATERBURY, *A Political Economy of the Middle East*, Westview Press, Boulder CO, 1998, p.142; S. AITA, *Les travailleurs arabes hors la-loi. Emploi et droit du travail dans les Pays arabes de la Méditerranée. Vision des enjeux et implications du partenariat européen*, L'Harmattan, Paris, 2011, pp.35 and 46.
30. WB-WDI, Middle East and North Africa, All and Developing Countries, 1960-2011, GDP per capita, (constant 2005 international US$).

US dollars in 1976 to 54 billion US dollars in 1979, from 89.4 billion US dollars in 1984 to 146.4 billion US dollars in 1987 and 160 billion US dollars in 1991. In 1989, national debts as percentage of exports stood at 328 per cent for Morocco, 249 per cent for Algeria and 137 per cent for Tunisia. For these countries the payment of interests equalled more than a quarter of the value of their imports.[31] Delay and restructuring of debts followed one another and in most cases they combined with the implementation of the famous Plans of Structural Adjustment (PSA) under the sponsorship of the International Monetary Fund, the World Bank and the Paris Club: Morocco in 1983, Tunisia and Egypt in 1987, and Jordan in 1989.[32] Coupled with the offensive of the Islamist political forces against secular regimes, the rise in social conflict in the early 1980s also originated from the erosion of the salaried workers' purchasing power, the mass layoffs in the public sectors and, not least, from the reduction of state subsidies. The massive and systematic resort to repression by the authoritarian elites, however, succeeded in dismantling opposition forces and containing dissent since mid-1980s.[33]

The fiscal crisis of the Arab states had a direct impact on the industrial capacities and capabilities of these countries. In fact, most of industrial production, previously nationalized during the 1960s and 1970s, did not perform on the criteria of maximum profitability. On the one hand, they were designed first to meet the needs of national consumption, more than profits and dividends; on the other hand, mismanagement, and disregard for labour participation combined with discontinuations in investments in machinery and research for development so as to hamper the factors productivity. As such, most of the industrial production in the region was heavily subsidized and financially supported by the central state. As soon as oil-rents and their redistribution diminished, the regimes decided to stop investments first on infrastructures, then on industrial and agricultural production. The Gross Fixed Capital Formation growth fell from 14 per cent of MENA GDP in 1982 to -11.1 in 1987, which meant the cancellation of a large part of the already planned investments.[34] In the end, the volatility of the oil rents exacerbated rather than alleviated the shortcomings of industrialization in the Arab and MENA countries: their production could not compete

31. UNCTAD Statistical Database, *MENA Debt outstanding, total long-term, 1980-1995*; HAEC, SEC (92) 401 Final, Commission of the European Communities, Communication to the Council and the European Parliament, *The Future of Relations Between the Community and the Maghreb*, Brussels, 30.04.1992, p.7.
32. J. HARRIGAN, J.R. EL-SAID, *Aid and Power in the Arab World: World Bank and IMF Policy-Based Lending in the Middle East and North Africa*, Palgrave MacMillan, Basingstoke, 2009, pp. 6-7.
33. V. MENALDO, *The Middle East and North Africa's Resilient Monarchs, Social Science Research Network*, Working Paper Series, 2010, p.34; K. PFEIFER, *Social Structures of Accumulation for the Arab world: the Economies of Egypt, Jordan and Kuwait in the Regional System*, in: T. MCDONOUGH, D.M. KOTZ (eds), *Contemporary Capitalism and its Crises: Social Structure of Accumulation Theory for the 21st Century*, Cambridge University Press, Cambridge, 2010, pp.309-354.
34. WB-WDI, Gross Fixed Capital Formation, 1960-2010, Developing MENA; R. OWEN, S. PAMUK, op.cit., pp.96-97.

with the New Industrializing Countries (NIC) of East Asia, and thus did not profit from the further internationalization of capitals, later labelled as "globalization".

The fiscal crisis of the state had a direct impact on agriculture as well. Agricultural production had been on the rise since the agrarian reforms of the 1950s and 1960s. The overall aim of the system was to guarantee "food security" for the population, which was both on the rise and more urbanized since the 1970s. However, the costs grew expensive and proved to be a strain for the state budget, which largely subsidized domestic production and consumption. During the 1980s the Arab states limited investments on their agricultural production: productive capacities suffered from a gradual deterioration in machinery, irrigation systems and credit facilities, exposing production and peasants to the volatility of the weather. Arab elites and international partners supported export-oriented producers, who mostly supplied the oil-rich Arab states or Europe: thanks to their integration into world markets they were supposed to become more competitive and efficient, this helping to balance their deficits.[35] However, agricultural exports did not contribute much because the terms of trade still favoured industrial products and, moreover, they deprived national consumption from a major source of provision.[36] As a result, in order to meet domestic demand, Arab countries became net importer of foodstuff and agricultural products, whose international prices were low for the time being.[37]

Even by the late 1970s Arab non-oil exporters were facing a fiscal crisis. However, foreign investments by their "rich" Arab neighbours could balance their sheets. Eventually, such a solution collapsed by the mid-1980s and, under pressure from international donors, Arab elites engaged in a new round of liberalization (infitah), privatizations and fiscal austerity that endured until the late 1990s. On a minor scale, oil exporters had to restructure state budgets as well because oil prices remained low until the beginning of the XXI century, not including the 1990-1991 Gulf crises. If the economic reforms of the 1970s did not basically affect the primacy of the public sector in the Arab world, those of the 1980s had a long and lasting impact in reversing the power relationship between public and private economic actors. Slower than expected by international creditors, the public lost anyway its autonomy and was placed at the ultimate service of private actors and interests.[38]

35. J. HARRIGAN, J.R. EL-SAID, op.cit. p.10.
36. UNCTAD Statistical Database, *Terms of trade index*, Annual, 1980-1995, for Algeria, Egypt, Jordan, Morocco, Tunisia.
37. Food Dependency was especially high for cereals. The self-sufficiency rate for Algeria moved from 85% in the early 1960s to 31% in the early 1980s; from 94% to 62% for Morocco; from 78% to 54% for Tunisia, from 78% to 53% for Egypt and from 57% to 16% for Jordan. Syria moved from 115% to 80% of self-sufficiency. Table 1, Annex, HAEC, COM (85) 517, Final, Commission of the European Communities, Communication to the Council, *The Community and the Mediterranean Countries: Guidelines for Economic Cooperation*, Brussels, 26.09.1985; A. RICHARDS, J. WATERBURY, op.cit., p.146.
38. Ibid., p.249. Scientific Literature agrees on the so called crony capitalists "capturing" the state. See N.N. AYUBI, *Over-Stating the Arab State. Politics and Society in the Middle East*, I.B. Tauris, London, 2006, pp.329 and 402.

The Relations Between the EC and the Arab World

As soon as oil prices began declining since 1982, the current accounts of the EC Balance of Payments with the Arab countries returned to a surplus: from a deficit of 2.2 billion US dollars in 1983 they moved on positive ground at 4.8 and 6.5 billion US dollars in 1982 and 1986, respectively. Later on, they increased their surpluses to all-time heights of 28 billion US dollars in 1989 and 58 billion US dollars in 1990, to then return to the "modest" surpluses of 7.8 billion US dollars in 1991 and 9.6 billion US dollars in 1994.[39] The values of their industrial and consumer products far exceed the value of imports from MENA countries, and the EC was able to offset its oil deficit with increased sales to the Maghreb and Mashreq countries. Again, differentiation among Arab countries in their relationship with the EC continued unabatedly during the 1980s. The EC current accounts registered an overall balance with the Arab oil-exporting countries, with surpluses in 1983 and 1986 as well as from 1990 to 1994. Against the oil "poor" Arab countries, the EC continued its surpluses, from 2 to 5.6 billion US dollars between 1980 and 1986, and an average of 4 billion US dollars until 1994. The 38.5 billion US dollars surplus in 1990 proved to be the peak of a general trend.

The overall positive balance, however, hid a general decline in trade between the EC and the Arab world. The latter's fiscal crisis impacted heavily on European exporters, which were by far the major suppliers of industrial machinery and intermediate products. Despite occasional upsurges like in 1990, the value of EC exports declined significantly from 42.7 billion US dollars in 1982 to nearly 29 billion US dollars in 1986. The temporary increase at 77 billion US dollars in 1990 was just an exception due to the oil prices boost and by the years 1991 and 1994 EC exports to the Arab World had declined to 27 and 24.3 billion US dollars, respectively. As for the Arab oil-exporting countries, the EC exports increased from 27 to 34 billion US $ between 1980 and 1982, and then declined to an average of 22 billion US$ until 1994, with occasional peaks in 1989 and 1993. As for the Arab oil "poor" countries, the EC exports followed the trends of their "rich" neighbours: from 7.4 to 8.5 billion US dollars between 1980 and 1982 and an average of 4 billion US dollars until 1994, when they recovered to 7.3 billion US dollars. The decline of EC imports from the Arab states was even more pronounced: from 38.7 to 22.4 billion US dollars between 1982 and 1986, and from 19 to 16.6 billion US dollars from 1990 to 1994. The oil-exporting countries saw the value of their exports decline from 34 to 21 billion US dollars 1982 and 1986, and from 19 to 14.7 billion US dollars from 1990 to 1994. On a lower scale the oil "poor" Arab countries followed the same trend: from nearly 3 to 1 billion US dollars between 1982 and 1986, to remaining below one billion US dollars up until 1994.[40]

39. Author's data elaboration from United Nations, *International Trade Statistics Yearbook*, Trade by Principal Country of Production and Consignment, Imports C.I.F, Export F.O.B, New York, vol. 1980-1996.
40. Ibid.

Facing the revolution in Iran and the second oil shock, Western European politics reacted with initial disorientation. At the EU Council in 27-28th April 1980 they expressed concerns of over the inflationary and disrupting effects of the recent increase in oil prices, which could trigger a "general recession in demand": North-South Dialogue, collaboration with private capital markets and the further development of international financial institutions would combine with the recycling of oil surplus to lessen "disequilibria" in the balance of payments. The reduction of the GNP/energy consumption ratio was also conceived as a solution to what was eventually labelled as an "intolerable burden for industrialized regions" and "an obvious threat to international stability".[41] Despite earlier concerns, however, the members of the European Communities could then enjoy a general amelioration in their posture vis-à-vis the Arab countries. The latters' role as a leading force in the Third World vanished along with their fragmentation and infightings. Hence, no more did they pose a concrete threat to industrial countries.

As for the EC economic policy towards the Arab world, and their Mediterranean countries in particular, two stages seem to emerge. At first, from 1980 to 1984 the EC was concerned with the impact of the new oil shock, but actually did not develop any new strategy, in part because they did not have any single or leading partner with which to negotiate: the platform of the Euro-Arab Dialogue was suspended after Egypt was ousted from the Arab League, and its renewal in the mid-1980 proved simply ephemeral as long as Arab leaders disagreed on plans and agendas.[42] Rather, the EC focused more attention on regional sub-units, like the Maghreb. Since the mid-1980s, however, the EC hardened its stance and aligned itself with the politics of economic restructuring advocated by international institutions like the IMF and the World Bank. The "debt burden" of Arab states was deemed to be a "fundamental obstacle to financial retrenchment and economic resurgence", as well as to the payment of imports from the EC. If in the early 1970s liberalism was to be "embedded" by multilateral, political negotiations, now Arab partners should expose themselves directly to the "disciplines of competition": in concrete, to open up their markets to EC exporters while making use of their supposed "comparative advantages". Development, integration and more balanced relations in the Mediterranean were no longer points of discussion or negotiation because "the market" would enact them.[43]

After expressing their concerns over the sudden rise of oil prices in 1979, the EC Commission continued to consider the Cooperation Agreements of 1976 and 1977 as the best engines to foster trade and economic relations with the Arab world. In 1980, attention was given to the impact that enlargement of the Communities first to

41. HAEC, *Summary by the Presidency of the Proceedings of the European Council*, Brussels, 18.06.1980.
42. HAEC, X/177/1982, DE38/1982, Commission of the European Communities, DG for Information, *The European Community and the Arab World*, Brussels, 06.1982, pp.33-35.
43. HAEC, SEC (92) 401 Final, Commission of the European Communities, Communication to the Council and the European Parliament, *The Future of the Relations Between the Community and the Maghreb*, Brussels, 30.04.1992, p.7.

Greece in 1981 and then to the Iberian states in 1986 would have on partners in the South. The membership of Spain was deemed more problematic, because:

> "At present, these countries compete with Spain on the EEC market. They produce the same type of agricultural goods and their industrialization is following the traditional patterns adopted earlier by Spain, with the textile and clothing industries paying a particularly important role. Spanish entry into the Community will secure privileged access for its goods, increasing at the same time in significant manner the level of self-sufficiency for Mediterranean-type agricultural products".

The research-study prepared on behalf of the EC Commission highlighted that Morocco, Tunisia, Egypt and Israel would be severely affected and, more worryingly:

> "There is already a growing disenchantment among the Southern Mediterranean states concerning the real worth of their bilateral agreement with the EEC. They complain about the erosion of the limited advantages enjoyed in the farm sector and the so-called "self-limitation" agreements in textiles and clothing hoisted on them by the Community".[44]

As a matter of fact, the crisis affecting the textile and clothing industries in Europe led the EC Commission to enforce the limitation of export quotas on the Mediterranean partner in 1978, thus derogating to the previous agreements. Such limitations concerned the bulk of Moroccan and Tunisian industrial supplies to the EC, respectively 63 and 85 per cent of their total exports (c.i.f. cost insurance and freight). Despite the EC arguing that such "self-imposed" limitations did not hinder their growth, the textile and agricultural exports from the two Maghreb countries, actually, stagnated. Since the EC market was moving toward "self-sufficiency", the report suggested helping the Arab countries "to develop those sectors of their industries for which there is a major home demand" and converting farming "away from products for which it has to compete with the candidate countries", namely Spain and Portugal.[45]

Moreover, in June 1982, the EC Commission recognized the "frustration" of the previous 1972 "overall approach", whose cause was found in the world recession. It argued that it was in the EC's "vital interests to avoid contributing to economic and social problems in a way which would threaten to destabilize the Mediterranean region", and accusation from the US to damage their commercial interests in the region were rebuffed by the inherent contribution of the Cooperation Agreements to the stability of the "pivotal region".[46] However, only minor adjustments were proposed to a situation that, indeed, was fast deteriorating for the Arab partners. Quite indicative

44. HAEC, X/225/80-EN, Commission of the European Communities, DG for Information, Robert Taylor, *Implications for the Southern Mediterranean Countries of the Second Enlargement of the European Community*, Brussels, 06.1980, pp.3 and 5.
45. HAEC, X/85/1982, DE36, Commission of the European Communities, DG for Information, *Cooperation Agreements Between the EEC and the Maghreb Countries*, Brussels, 02.1982, pp.4 and 19.
46. HAEC, Information, P-39, Spokesman's Group, Commission of the European Communities, Information, *Overall Mediterranean Policy*, Brussels, 06.1980, p.2. The US accusation concerned the entry of EC societies into the lucrative market of construction of oil refineries in the region, where the US firms were traditionally at the forefront.

was the proposal to set up multiannual food supply programmes for certain Arab partners "to enable them to get better control of their supplies in the longer term". However, it was concealed: "The Treaty of Rome does not provide the possibility of funds for such schemes. This is a big problem".[47]

Far from advancing any pro-active policy, and pressured by both Arabs and the US, the EC seemed locked in what might be labelled as the strategy of "crisis avoidance". The proceedings of the meetings between EC officials and their Arab partners show both the marginal attention paid to the Arab requests and the shift in EC policy. Arab officials asked for a larger increase in the quotas of agricultural exports to the EC market, or the removal of all quotas; they asked for a delay or restriction in European industrial exports or, rather, for more investments and technical assistance to develop their industrial capacities. Quite significantly, they asked the EC for a public campaign against discrimination towards Arab migrants in Europe, whose remittances were more and more essential to their economies. The EC Commission acknowledged legitimacy and understanding for some of the Arab requests: in particular their will to deepen cooperation with the EC. However, it suggested neither overestimating the gravity of the situation in the Arab countries, nor granting more financial aid: "a certain inability on the part of the Mediterranean countries to adjust to changes in demand has sometimes been the basic reason for the loss of some markets". The same applied to the mismanagement of aid and the implementation of financial and technical cooperation. They also minimized Arab concerns over the impact of Spanish and Portuguese access to the EC, arguing for the "pro-active" approach of the two applicant countries to tackle possible negative effects. In a slightly different but significant change of tone and criteria, the EC Commission argued in May 1984 for the European Communities and the Arab partners to make full use of their "comparative advantages" of both sides of the Mediterranean basin.[48] Ultimately, it was now up to the Arab Mediterranean countries to reform according to market dynamics and exploit, rather than change, the differentials in development.

The EC Getting "Tough"

In March 1985, the European Council re-affirmed its commitment to the goals and principles of the EC Mediterranean Policy and, in September, the Commission hammered out the strategic guidelines for the next-five years, from 1986 to 1991.[49] It was

47. HAEC, X/177/1982, DE38/1982, op.cit., pp.1, 18 and 27.
48. HAEC, COM (84) 107 Final, Commission of the European Communities, *Commission Report to the Council on the Exploratory Talks with the Mediterranean Countries and the Applicant Countries. Commission Proposals Concerning the Implementation of a Mediterranean Policy for the Enlarged Community*, Brussels, 11.05.1984, pp. 2-3, 6 and 11-14.
49. HAEU, COM (85) 517 Final, Commission of the European Communities, *The Community and the Mediterranean Countries: Guidelines for Economic Cooperation*, Communication to the Council, Brussels, 26.09.1985.

argued that the EC was the "leading power in the Mediterranean": the non-member countries represented its third most important external outlet and its biggest trade surplus; the EC had an interest in the stabilization of a region "torn by tensions and conflicts", and could play the role of catalyst for the Arabs' anxiety "to retain their independence vis-à-vis the superpowers". It acknowledged the difficulties engendered by adjustment and austerity policies aimed at tackling the main "obstacles": namely, fast population growth, food shortages, trade deficits and external debts and, last but not least, the fragility of the "industrial fabric". In coordination with public and private international institutions, the EC would focus on reducing food dependence through aid destined for local and regional consumption; again, it would encourage Arab countries to diversify its agricultural exports as regards both crops and markets, in order "to reduce or prevent strains in the Community market".

The "long-term" complementarity of the EC and South Mediterranean countries would now involve "the effective participation of entrepreneurs, bankers, industrialists and traders", which "naturally presupposes a welcoming environment and sufficient incentives for investment between European trade and business and undertakings in the Mediterranean countries". The Arab partners had to make "the efforts to create a more welcoming environment" because for the EC "it is no longer possible to imagine in this connection any formal improvement in the trade provision contained in the agreements". The EC agreed with the World Bank on the need for Arab countries to attract risk-capital for small and medium-sized enterprises (SME) and establish joint-ventures with foreign partners. The EC would provide aid for technical assistance, professional training and facilitate connections between chambers of commerce and trade associations.[50] Last but by no means least, the EC Commission argued that bilateral relations "should eventually be placed in the context of an overall convention between the European countries and the South Mediterranean countries, or at least agreements with each sub-region", namely the Maghreb countries.

The 1985 guidelines marked the eventual adoption by the EC of the neoliberal approach that would shape the frameworks and policies on the Mediterranean for the coming decades. Such a long-term agenda basically rested on two pillars: few resources at their disposal and strong conditionality.

> "The direct Community contribution is bound to be modest. Its effectiveness will depend essentially on the determination of the Mediterranean partners themselves to take this path".[51]

50. World Bank, Report n. 4580-EGT, Industrial Development and Finance Division, Projects Department, Europe, Middle East and North Africa Regional Office, *Egypt: A Programme for the Development of Manufactured Exports*, 05.12.1983, pp.6 and 11; World Bank, Report n. P-4075-MOR, *Report and Recommendation of the President of the IBRD to the Executive Directors on a Proposed Second Industrial and Trade Policy Adjustment Loan in an Amount Equivalent to US$200.00 Million to the Kingdom of Morocco*, 06.05.1985, pp.16 and 31; Report n. 5328-TUN, Départment des Programmes II, *Europe, Moyen-Orient et Afrique du Nord, Tunisie. Rapport économique sur l'exécution du sixième plan du développement (1982-1986)*, vol.I, *Objectif de croissance et de politique économique*, Washington DC, 10.1985, pp.20 and 69.
51. HAEU, Com (85) 517 Final, pp.4 and 11.

With all due adaptations, the EC policy towards the Mediterranean region reflected the global strategy to enhance the member countries' position in the emerging markets. As for the Arab world, the Gulf States were the primary targets of EC efforts: the high-tech capacities, the decline of production costs and the "stability" of EC foreign policies would fit well with the patterns of trade diversification of developing countries. Accordingly, the EC Commission fully supported both trade liberalizations and the construction of regional markets:

> "To be sure the removal of restrictions would also help non-Community firms, but European firms, which have less of a foothold in the key markets than the US and Japanese firms, would stand to benefit even more. […] The creation of regional markets would be a powerful incentive to direct investment and industrial cooperation, since the range of outlets would be increased".[52]

The following years witnessed the fall of the Mediterranean Arab countries into economic crisis. While the external debt and its servicing increased steadily, the Community financed the Mediterranean neighbours in order to contain their current account deficits. The third generation of Financial Protocols (October 1987-October 1991) gave the European Investment Bank a total of 192 million ECU: 60 million for Tunisia, 50 million for Morocco, 34 million for Jordan and 28 million for Egypt. They focused mostly on the improvement of infrastructure (railway and electricity networks) as well as agro-industrial production, tourism and small and medium-sized business.[53] The European Council agreed on the Spanish proposal for the creation of a European Guarantee Fund (EGF) to reduce the foreign debt of countries like Algeria, Tunisia, Morocco or Egypt. However, its implementation was conditional on the indebted countries' agreement with the IMF economic programmes. In parallel, the formation of the Arab Maghreb Union (AMU) in Marrakesh on 17 February 1989 was welcomed as a positive step towards regional cooperation.[54] Yet, the Mediterranean lay on the margins of EC attention because the acceleration towards the construction of the European Union as well as events in Eastern Europe catalysed most attention and resources. In order to appease the concerns of its South Mediterranean partners, the European Council of Strasbourg in December 1989 stressed the need to

52. HAEC, Com (86) 603 Final, Commission of the European Communities, *Industrial Cooperation with Certain Latin America, Asia, The Gulf and Mediterranean Countries*, Communication to the Council, Brussels, 03.12.1986, pp.6-7. In relation to the Arab Gulf, much attention was given to the establishment of "real" international industrial standards, against those imposed by US dominant supplies "to capture markets", as well as to the formation of a specific European "business culture" that would support EC products and business relations against the US monopoly in developing countries, pp.10 and 16.
53. HAEC, SEC (89) 1625 Final, Commission of the European Communities, *Commission Report to the Council and Parliament on the Borrowing and Lending Activities of the Community*, Brussels, 17.10.1989, p.76.
54. HAEC, SSN 254/2/89, Presidency Conclusions, European Council, Madrid, 26-27.06.1989, Annex II.

intensify "neighbourly relations", especially with AMU, and reiterated its support for a political settlement to the Arab-Israeli conflict and the civil war in Lebanon.[55]

Facing the expiration of the previous Five-year programme, in June 1990 the EC Commission detailed its proposals for the next period (1992-1996). The document followed the basic principles of the previous approach, but with renewed emphasis both on the nexus between free-market capitalism and pluralist democracy, and the suitability of the Plans for Structural Adjustment (PSA) as the "only" way to tackle the problem of public debt.

> "The Commission has already voiced the view that there is little choice but to continue and intensify the process of economic reform and to bring about a considerable improvement in the volume and methods available to finance reform and growth. The member States therefore continue to support the international financial institutions' move to draw up viable economic reform programmes with the countries concerned".

Besides the usual financial protocols attached to the cooperation agreements, the EC Commission now asked the Council for 600 million ECU to support those Arab countries adopting the neoliberal PSA:

> "It [aid] was to be granted to those countries which agree to take certain specific economic and financial policy measures. The aid would therefore not be allocated to implement a given development project. It would primarily be used to encourage fundamental changes – either sectorial or macro-economic".[56]

The EC could now deploy the heavy leverage of its "conditionality" clauses, thus strengthening the power of industrial creditor countries vis-à-vis their Mediterranean indebted partners. The time was ripe for a "qualitative and quantitative leap".

The problem of public debt was addressed as a priority, and more coordination among Member countries was suggested before they convened to the creditors' Paris and London Club. If this could be interpreted as a desire for more autonomy, the Commission did not alter the overall approach along which it was the debtors' primary and ultimate responsibility to enforce the reforms that would set their economies on sounder, more competitive ground. It conceded, however, that these entailed "stringent economic and financial discipline and unpalatable sacrifices at social and political level". The EC would support their efforts by deploying more resources and a wider range of instruments. Among these, the Commission argued "the time has come to include textiles in the free access arrangements" as well as to let agricultural products enter the EC market. However, the "right" time was postponed to the mid-1990s. As for the "fourth" generation of Financial Protocols, priority was given to funding projects aimed at reducing food dependence, enhancing the industrial and manufacturing capacities of small and medium-sized business, protecting the environment

55. HAEC, SSN 441/2/89, Presidency Conclusions, European Council, Strasbourg, 08-09.12.1989, pp. 12 and 16-17.
56. HAEC, SEC (90) 812 Final, Commission of the European Communities, Communication from the Commission to the Council, *Redirecting the Community's Mediterranean Policy. Proposals for the Period 1992-1996*, Brussels, 01.06.1990, pp.3 and 15.

and improving economic infrastructure. Efficiency in the allocation of funds, flexibility in the face of "sudden upheavals" or "balance of payment crisis", subsidiarity and quality were the principles according to which EC aid was to be granted.[57]

Far from objecting to the core content of the EC approach, the main critique still lay on the need to integrate trade liberalization and financial discipline with cooperation to development in order to contain the social and political spill-overs from the reforms. In May 1991, the Rapporteur of the Committee on External Economic Relations of the European Parliament, Mr Eusebio Cano Pinto, wrote that the EC Commission's guidelines "constitute a starting point, albeit a somewhat inadequate one" because the new protocols for 1992-1996 "should place greater emphasis on financial, economic and technical cooperation rather than trade relations alone".[58] The Committee called for the construction of new institutions for a

> "genuine partnership, in particular with the Arab Maghreb countries, with a view to creating a custom union and free trade area within a reasonable period of time".

In late 1990, the Directorate-General for Information, Communication and Culture of the EC Commission admitted:

> "wealth is unevenly distributed between the Northern and Southern parts of the Mediterranean Basin, which is economically dominated by the power of the European Community".[59]

Indeed, the economic and political crisis affecting the Arab world and European Communities in the 1980s enlarged the distance between the North and South Mediterranean countries: the Gini index of income polarization in the Mediterranean basin rose from 0.29 in 1961 to 0.32 in 1980 and 0.34 in 1990. The bi-polarization of incomes between North and South Mediterranean doubled from 0.06 in 1961 to 0.9 in 1980 and 0.12 in 1990.[60] The four EC members on the shores of the Mediterranean accounted alone for two-thirds of the region's wealth alone and, in overall terms, the GNP of the EC was ten times that of non-member Mediterranean countries: average per capita GNP in the EC was 10,000 US dollars, in contrast to 1,000 US dollars in the South Mediterranean, with the Maghreb and Mashreq at the bottom of the scale. The "balance-sheet is not conducive to optimism". The Mediterranean policy "had not lived up to expectations".[61] The main causes were found on the erosion of the trade preferences, the EC protectionist attitude in the agricultural and textile sectors. Eventually, the Commission conceded that the EC enlargement to Spain and Portugal had let the EC became self-sufficient in many areas at the detriment of its

57. Ibid., pp.14-16.
58. HAEC, A3-0121/91, DOC_EN/RR/109118, European Parliament, Session Documents, *Report of the Committee on External Economic Relations on a revamped Mediterranean policy. Rapporteur: Mr Eusebio Cano Pinto*, Strasbourg, 03.05.1991, p.6.
59. HAEC, X/20/90-EN, CEE: VIII/53, Commission of the European Communities, DG for Information, *The European Community, the Mediterranean and the Middle East*, Brussels, 1990, p.8.
60. J. ESTABAN, *Economic Polarization in the Mediterranean Basin*, in: *Els Opuscles del CREI*, 10(2010).
61. HAEC, X/20/90-EN, CEE: VIII/53, op.cit., pp.13-14.

non-member Mediterranean partners. The "strong interdependence" led the non-member Mediterranean countries becoming the third largest market for the EC and its biggest trade surplus. Purchases from the EC amounted to 60 per cent of total imports in Algeria, 50 per cent in Tunisia, 44 per cent in Morocco, between 30 and 33 per cent in Mashreq and Israel. These countries accounted for 10 per cent of total EC exports, three times the amount it exported to Japan and half of what it exported to the US, with the difference being that the EC ran deficits with these two latter countries. Given the rate of inflation, the Commission admitted that the aid and capital investments included within the three generations of Financial Protocols did not help much in improving the balance of payments. Nor did the remittances of 1.8 million migrants from North Africa working in the EC, which corresponded to 20 per cent of Tunisian exports, and 50 per cent for Morocco.[62]

Despite such a deteriorating situation and in order to appease the concerns over the geopolitical leaning of the EC towards Central and Eastern Europe after the demise of the Berlin Wall, the Commission stated that it was ready to play a "stabilizing role" to preserve "peace on its doorsteps and markets for its outlet". It conceded that "protectionist responses in the period of recession and the consequences of certain excesses of its agricultural policy" had undermined the relationship with Mediterranean partners. However, it now felt "strong enough" to regain their confidence.[63]

Conclusions

In late 1990, the Commission was blunt in saying that the Mediterranean "[had] always been far more important as a dynamic market than as a rival producer": the division of labour meant that its vehicle exports alone were worth more than total textile imports from those countries. As a matter of fact, far from the state-led developmental approach of the early 1970s, since 1985 the EC worked with the Arab Mediterranean countries "in accordance with a single principle: the maintenance of traditional patterns of trade".[64] The following January, the EC Commission commented that: "Neither geographical proximity nor free access to the market have prevented our investors from clearly preferring other parts of the world (South East Asia especially). […] The unsuitability of economic and administrative policies, poor productivity and narrow national markets" were seen as the causes for the Maghreb inability to become the EC Mediterranean "Tigers".[65] Despite poor results, the Commission still argued in April 1992 that structural adjustment reforms would revert

62. Eurostat estimates 1986 and DGV, reported in HAEC, DE 68, Commission of the European Communities, DG for Information, Communication, Culture, *The Countries of the Greater Arab Maghreb and the European Community*, 01.1991, p.10.
63. HAEC, X/20/90-EN, CEE: VIII/53, op.cit., p.8.
64. Ibid., p.16.
65. HAEC, DE 68, op.cit., p.9.

such marginality, and the EC would give "absolute priority to support for reforms" in three ways:

> "specific technical assistance, financial assistance as a backdrop to economic reforms, and an intensive dialogue to be held jointly or in parallel with the IMF and the World Bank".[66]

In the Mediterranean the European communities always adopted economic policies that ranged from free-trade liberalism to shrewd mercantilism. Basically, it depended on what policy would guarantee the prominence of the EC in the region at any given period. With the Global Mediterranean Policy and the Cooperation Agreements of the 1970s, the European Communities and its Arab partners "embedded" liberalism within multilateral, state-led cooperation to development. This was a partial response to the pressure applied by the Arab countries, which enjoyed the advantage of high oil prices for the time being. On the contrary, as long as the Arab positions weakened because of political fragmentation and decline of the oil leverage since the mid-1980s, the EC promoted "unleashed capitalism" in the Mediterranean basin.[67] The harsh realities of differences in the levels of development were then considered a comparative advantage that would serve the interests of both EC and Arab business and authorities. The "distance" between the North and South of the Mediterranean was an opportunity from which to profit as well as a problem to be managed and contained, rather than solved.[68] Cooperation to development was thus "embedded" within neoliberalism.

It might be worth asking whether the EC economic policies for the Mediterranean in the 1980s actually contributed or not to the peaceful resolution of conflicts, like the Arab-Israeli one, and the stability of the Mediterranean area. Quite differently from the 1970s, direct linkages between economics and peace were mentioned in official documents only in broad, general terms. In line with contemporary literature, economic reforms were supposed to tackle fiscal crisis, contain military spending in the region and, thus, prevent countries from engaging in an arms race and hazardous military adventures. Moreover, the bilateral approach of the EC and the pressure to fully exploit "comparative advantages" fostered existing cleavages and competition among Arab states, rather than cooperation.[69] Despite multilateral events such as the Madrid Conference in 1991, such a division was the basic condition leading to bi-

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66. HAEC, SEC (92) 401 Final Commission of the European Communities, Communication to the Council and the European Parliament, *The Future of the Relations Between the Community and the Maghreb*, Brussels, 30.04.1992, pp.11-12 and 15.
67. A. GLYN, *Capitalism Unleashed. Finance, Globalization and Welfare*, Oxford University Press, Oxford, 2006, p.24; H-J. CHANG, *Kicking away the Ladder. Development Strategy in Historical Perspective*, Anthem Press, London, 2002, p.110.
68. N.N. AYUBI, *Distant Neighbour. The Political Economy of Relations between Europe and the Middle East/North Africa*, Ithaca Press, Reading, 1995, pp.5-6; S. MEZZADRA, B NIELSON, *Border as Methods, or, the Multiplication of Labor*, Duke University Press, Duke, 2013, p.61.
69. I. DIWAN, N. PAPANDREOU, *The Peace Process and Economic Reforms in the Middle East*, in: S. FISCHER, D. RODRIK, E. TUMA (eds), *The Economics of Middle East Peace. Views from the Region*, MIT Press, Cambridge, 1993, pp.227-258.

lateral negotiations, or even partial normalization with Israel during the 1990s. As stated in 1978, the European Communities, later European Union, deployed their "strength" and provided the economic and financial guarantees for the peace process as well. However, on the one hand, the kind of economic reforms supported by the EC increased those social tensions which would either turn into full scale civil war, like in Algeria in the 1990s, or into renewed repression against any dissidence, like in Egypt, Tunisia or Jordan. On the other hand, economic inducements tested all their limits with regards to unresolved political issues of the Arab-Israeli conflict, and the ambivalent posture of the EC/EU. Ultimately, both economic restructuring and the "peace process" led neither to comprehensive peace nor to social stability. At best, they contained conflict and instability to the Southern and "distant" shores of the "sea-in-between".