

EUROPEAN ECONOMIC INTEGRATION — A RELEVANT EXPERIENCE FOR AN ARAB COMMON MARKET ?

By

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After the summits of the heads of European governments during the last two years, the European Community seems to be in a bad shape. Major problems are the budgetary difficulties as a result of growing financial contributions to an ever mounting burden of the Common Agrarian Policy, and rising financial demands for regional and social funds linked with the South Enlargement of the EC. In addition, the EC is exposed to the general strains of an industrial adjustment process in an environment of growing international competition. Internal social pressure and growing internal employment problems favour demands for protectionist trends.

A number of European Summits during the last two years have collapsed over budget disputes and fair shares of the Member countries' financial contributions to the ever growing costs of the Common Agrarian Policy which is basically a high price policy for agricultural products with considerable surplus production effects, aiming at income procurement for the farm populations. Germany, Britain, and the Netherlands as the major net contributors to the financial transfer system keep insisting on cutting the costs, whereas France, Italy, and Ireland with substantial agricultural sectors as net receivers understandably oppose such reforms.

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Other financial strains come up with growing demands on the Regional and the Social Fund of the EC, particularly in the process of the South Enlargement with the accession of Greece, Portugal, Spain and, eventually but less likely, Turkey.

The impasse since the Athens Summit in December 1983 highlighted the EC's notorious internal difficulties ever since the emotional and political enthusiasm after world war II had faded away : the lack of vision and basic consensus on the future role of Europe within a rapidly changing setting of international cooperation and competition in trade, technology, and a wide spectrum of related issues.

At the same time the EC is faced with growing internal disparities between the agglomeration centers and its lagging economic regions in Ireland, Southern Italy, Greece, and in Spain and Portugal after their accession. Thus we are facing a North-South gap **within** the EC, with large pockets of underdevelopment and whole countries like Greece and Portugal subject to center-periphery processes. The economics of agglomeration clearly strengthen the existing growth poles at the expense of the lagging regions. The economic and social adjustment processes of the EC enlargement are tremendous, with the consequence that the EC political decision-making capacity will be increasingly absorbed by its internal problems. Painsaking continuous bargaining processes on sectoral, regional, and social policies are ahead.

The institutional arrangement which has evolved in the EC consists of the European Commission as an administrative body, the European Council representing the political power of the Member Governments, the European Court, and the European Parliament with a slowly growing standing and budgetary rights. The EC Commission is the administrative core of the institutional set-up, but it has no power structure of its own. Power is retained by the Member Governments represented in the EC Council.

The result is a continuous bargaining process among the Member Governments accompanied by painstaking attempts of the Commission to prepare feasible packages which hopefully anticipate the divergent interests within the Council, an inherent difficulty in formulating medium and long-term policies, and a general preference for conflict minimization and ad hoc management rather than for feasible long-term policies. The EC Commission is the major actor of the European Community, but it suffers from a lack of general political mandates, and appears as a huge frustrating bureaucracy with very limited competencies.

The political process will become all the more difficult as new policy-decision procedures may emerge within the Enlarged EC, for instance majority vote in the EC Council, and a stronger role for the EC Parliament. This could eventually lead to a "Latin Bloc", with France leading the group of the less developed Mediterranean Member states of Italy, Greece, Spain, and Portugal, which might have a considerable weight in shaping future internal and external EC policies with a still growing tendency towards neo-mercantilism, protectionism, and socialist inclinations with regard to industrial policies and social welfare concepts. It might also lead to a hesitant EC position with regard to new technologies such as robots, information and communication, as they may look threatening to traditional employment opportunities at assembly lines and in office routines, at least in the short run.

Meanwhile, many Europeans and particularly the younger generation are well aware of the dynamics of a changing world civilization and newly emerging patterns of international cooperation in the fields of trade, flows of capital, technology, and ideas. The need for new orientations within a cross-cultural dialogue on basic values and outlooks for the 21st century is strongly felt and articulated. There is a growing awareness that viable concepts for the future will have to acknowledge the emotional and spiritual needs of humankind deeply rooted in the different cultures, and simultaneously will have to develop enlarged end

enlightened concepts of scientific rationality which have emerged in Ancient Greece two thousand years ago and have spread all over the world ever since the breakthroughs by Newton and Descartes laid the foundations of modern technology. Europe will remain an open society open to dialogue.

I understand that the countries of the Arab region have in many respects a basic outlook very similar to the European perspective, with major overriding goals within the context of world economics and world politics which closely resemble those of the small and medium-sized nations of Western Europe.

The Arab Common Market so far has emerged as a structure which corresponds to the EC structure in a number of aspects. There is a secretariat with limited competencies, and a loose political coordination structure of the Council of Arab Economic Unity of Member Governments regaining power. Created in 1957, in the same year of the establishment of the European Economic Community, it has so far not set up an integrative supranational body. Basic aims are similar to those of the Treaties of Rome : economic cooperation, social progress, and a long-term perspective towards political unity. However, vital interests of Member Governments shall not be questioned by the Agreement.

The degree of Arab economic cooperation has been less stringent than in Europe both in terms of formal institutional settings and in material content and size. Arab Common Market Countries (ACM) as a whole absorbed less than 10 percent of total exports and less than five percent of total imports of ACM countries. For the European Common Market the share of EC intra-trade is about 50. The ACM is basically a Free Trade zone and hence a weaker form of cooperation than a Customs Union or an integrated common internal market with

(1) Treaty on Arab Economic Unity of June 6, 1957.

partly coordinated economic and monetary policies. An ACM parliament and a common budget have not been subject to serious discussion so far.

Nevertheless, ACM has emerged as the area's regional grouping, and the experience gained may have an impact on new attempts such as the Committee on Permanent Economic Cooperation among Islamic Countries established in Istanbul in November 1984 (45 members). A loose, less stringent structure may have substantial advantages in terms of flexible response and adaptability to turbulent environments as compared to a rigid bureaucracy with notoriously slow decision-making procedures prevailing in Brussels.

It would be particularly interesting to analyse the decision-making structures of ACM and the EC when dealing with policy challenges in our turbulent international environment. However, due to constraints of time and my limited competence with regard to the subtleties of ACM politics. I may leave this to studies by my Arab colleagues. Instead, I should like to draw your attention to some general observations of successful bargaining processes derived from many close looks at different international negotiations during the last two decades.

Several common elements of successful bargaining processes clearly emerge which undoubtedly have a bearing on the integration process of regional groupings like ACM or the EC :

A **first** precondition for a successful bargaining process, including a process of regional cooperation of sovereign states, is the **urgent felt need** of all participants for rapid and effective action. In Europe in the Fifties this was the case after the experience of world war II and the **urgently felt need** for Franco-German reconciliation,⁽¹⁾ in view of the

(1) Cf. Pieter Dankert, *The European Community-Past, Present and Future*, in : Loukas Tsoukalis (Ed.), *The European Community-Past, Present and Future*, Oxford 1983, p. 5 f.

new East-West confrontation and after the failure to set up a European System which was defeated by the French parliament in 1954.

Secondly, a favourable constellation for the negotiations would include a **basic consensus of views, attitudes and values** such as the necessity to avoid by all means the economic and military strife of the nineteen-thirties and forties in Europe. The vision of an end to all wars among European nations was enthusiastically supported by the young European post-war generation, and consequently a prime political factor.

A third ingredient of successful bargaining processes is the **restriction of the number of participant governments** to those which are really involved and concerned : six in the case of the European core Community. The Enlargement by Britain, Denmark and Ireland meant the rise to nine participants. This immediately caused complications due to the sheer arithmetics of coordination, let alone dissent on fundamental issues. The accession of Greece meant the rise to ten, and this has really changed the established patterns of conduct.

A fourth element is the creation of an **efficient intermediary body** in charge of keeping the process going. This can be a standing inter-governmental committee, a permanent secretariat or the like. In Europe, this function was originally and most successfully occupied by a working party chaired by the Belgian Foreign Minister Paul Henri Spaak, a figure with tremendous charisma and enthusiasm, and was later taken over by the newly emerging European Commission. A number of trends caused the Commission to follow well-known institutional pathologies : sheer quantitative growth linked with increasing absorption by internal conflict management rather than output orientation. This went hand in hand with a tendency to eliminate diverging views among Member governments by ever increasing finesse of regulations, thus burying conflicts in a jungle of paragraphs inaccessible to

common sense and political control. A striking example is the Common Agrarian Market with its tens of thousands of rules and regulations. Hence, limited competencies for an ACM secretariat may not be the worst of alternatives.

The **fifth** element of a successful bargaining process is continuing and effective **political commitment** of the participating governments which survives short-term media fascination and a restless public always eager for news rather than for implementation. When the European Commission got trapped in the administrative process that Big was Beautiful, Member governments represented in the Council found it increasingly difficult to keep the bureaucratic process under political control. Basically, the emotional and political commitment of the Fifties had faded away. With increasing difficulties at the economic home front and pressure for protecting income and jobs in changing international competitive positions, the Council got bogged down in endless strifes on milk quotas and other technicalities.

The **sixth** element of a successful bargaining process is the **precision of the provisions worked out** in the course of the negotiations which should allow for explicit articulation of divergent national interests. As a result of an exhaustive struggle, compromises tend to reflect the real forces and have a much greater chance to be considered by the participating governments as the maximum possible result. An intermediary body like a secretariat can ensure efficient management of the negotiations, pushing at feasible solutions while maintaining strict neutrality, drafting position papers, and helping to shape the final compromise.

The **seventh** element is the explicit **will** of the contracting parties stated in the text of the arrangement to **implement it**. This may involve the creation of a standing workable body and a sufficient budget. In the case of the EC, the institutional arrangement has been subject to intensive development. The Council is the representation of the Member

Governments, the Commission functions as the executing bureaucracy, and the European Parliament claims growing budgetary power of its own. The major source of finance, however, is still with the Member Governments.

I have commented on the procedural and institutional aspects of the European integration process, and would conclude with some remarks on sectoral policies. The **Common Agricultural Policy** is conceived as a nightmare by many critical observers because of its financial burden and its complicated regulations. However, an unintended side effect has been that food security is no subject matter in European politics thanks to a continuous surplus production. It is an old truth that farmers all around the world are highly rational profit maximizers - contrary to many development economists affirmations - and push production to surprising levels once adequate incentives are no longer denied by low-cost and low-price policies aiming at calming down urban consumers.

The **EC Regional and Social Funds** have to meet increasing demands from less developed regions and countries in the process of the South Enlargement.

Industrial policy has become a matter of particular concern since the last mid-seventies calling for structural adjustment. But, as a matter of fact, there is **no** MC industrial policy. Basic political consensus - our second ingredient - is nonexistent among Member Governments because of dissention economic order : e.g. French traditions of planification and state control of business are incompatible with free enterprise supported by the Federal Republic of Germany and the Benelux countries.

Technology policies have been hampered too by these ideological rifts. Some joint high-tech ventures have been launched in high energy physics, aviation and space technologies. Generally, competencies have been retained by national governments, and no common technology

policy of any substance is to be expected in the next few years. Again, this may be an asset rather than a deficiency, if one favours flexibility, adaptability, and openness to learning processes unhampered by huge bureaucratic structures and painstaking political bargaining processes among ten Member Governments of which very few have a real stake in the subject - remember our ingredient three.

Looking back to three decades of the European integration process, it is apparent that the Community has achieved less than satisfactory results in areas which have been subject to explicit attempts at formulating and implementing operational policies such as the common agricultural policy, technology and industrial policies, regional policies and economic adjustment policies.

On the other hand, the MC has had an outstanding success in areas which have not been subject to continuous administrative and policy intervention, particularly so in the field of free trade among the European countries by creating a common market and a customs union. Here, a basic political decision set a stable framework of liberal economic order, backed by a fundamental consensus of views - our second ingredient - of the signatories of the Treaties of Rome. This framework of economic order allowed private entrepreneurial initiative and flexible adjustment processes of millions of producers and consumers to promote an exceptional expansion of both world-wide trade and intra-European trade (intra-trade) accompanied by substantial benefits in terms of economic welfare and relative social balance.

Hence, the institutional machinery showed a poor performance where it tried to act, but allowed for an excellent performance where it restrained itself to creating optimal conditions for the private sector: entrepreneurial initiative, free flows of trade, labour, capital, technology, and ideas within a Common Market unrestricted by tariff barriers which made European intra-trade the paramount vehicle for economic growth and social progress in the sixties and seventies.

In addition, the political objective of peace among the West European Nations has been achieved to an extent that the young generation in Europe and the rest of the world would not even find it noteworthy. War among the Member Nations - the feature for centuries - has become unthinkable. In addition, the EC's economic strength and political stability, and its capacity for technical and financial cooperation have had an inconspicuous but substantial bearing on preserving the fragile status quo of a reasonable cooperation with Eastern Europe in spite of repeated turmoils in Hungary, East Germany, Czechoslovakia and Poland. The EC's economic achievements also had a favourable impact on a number of non-European countries bordering the Mediterranean.

When trying to summarize the relevant conclusions from the perspective of the ACM countries, I would hesitate to arrive at a few unambiguous conclusions. Instead, the following observations should be taken as a tentative contribution to a continuing discussion. The two features of the EC are on the one hand overbureaucratization of the Commission combined with lack of competencies, ailing political strength and vision at the political level of the Council, and a questionable performance on the level of sectoral policy action. On the other hand we observe an outstanding result of free markets, unrestrained trade, investment, exchange of technology, labour, and ideas in terms of economic growth, social progress and the creation of a European zone of peace, with beneficial effects on neighbouring regions.

I would venture the hypothesis that from the ACM perspective, the advantages of the European integration process may well be available without many of the costs and short-comings of the institutional structures which have been established in Brussels. Flexibility and adaptation potential may be far more valuable assets than rigid rules and institutional arrangements which may eventually evolve from painstaking inter-governmental negotiations. Many benefits of free trade may

be accessible without a burdening overhead of agreements on mutually adjusted sectoral policies. The need for formalized integration procedures may be far lower than one might assume when looking at the past efforts in Europe. A loose governmental coordinating structure may very well be an adequate answer to the particular challenges of the ACM region in the years to come.