istituto affari internazionali
88, viale mazzini • 00195 roma
tel. 315892 - 354456 • cable: intaffari-roma

Industrial Growth in the Mediterranean

Roma, 9 September 1982

This paper is the summary of a progress report which was written as part of a research project organized by the Istituto Affari Internazionali on behalf of the UNITAR.

Industrial Growth in the Mediterranean

In relation to global trends, the Mediterranean fared rather well in the last decades. Industrial growth was more dynamic than the global averages, while at the same time there was a redistribution of industry, which at the beginning was concentrated in France and Northern Italy.

Although the process of industrialization has specific traits in each of the countries under consideration, the data show that there is no country in the Mediterranean which is not experiencing some industrial growth.

This is the result of a determined effort on the part 6f national governments which have been pursuing an industrialization policy whose primary goal is to find sufficient domestic employment for a rapidly expanding labor force.

The European Mediterranean countries must be viewed as the periphery of the Central European industrial system. The peripheral nature of the Mediterranean economies is revealed by the movements 6f labor. Industry tends to concentrate in the already industrial regions. Processes of industrial decentralization in order to take advantage of cheap labor are directed toward remote regions where labor is cheaper and better qualified than in the Mediterranean countries. The latter thus become the source of a constant stream of migrant workers. Because of the negative political impact of mass migration, most Mediterranean governments feel the need to engage in a strategy of industrialization in order to offer employment domestically.

In these conditions it is not surprising that in all countries the State plays an important direct role in industrial investment and protection. The presence of a relatively important public industrial sector is a common characteristic of the Mediterranean economies; they conform to the definition of mixed economies.

Energy supply and industrial growth

The circumstances under which energy is supplied are going to play a growing role in the Mediterranean context. The Arab oil producers intend to increase the value added to their exports domestically by integrating their oil industry downstream and exporting an increasing proportion of refined and petrochemical products instead of crude oil. This will change the geography of the above two sectors, which in the past tended to concentrate on the Northern shore of the Mediterranean.

A second important element linked to crude oil is the probable evolution in the transportation system, which will bring an increase in the role of pipelines and a larger proportion of exports from Mediterranean outlets. This will change the geography of transportation costs, affecting the localization of some types of industrial activity.

A further important development is the valorization of gas resources. This can be pursued through the utilization of natural gas in industrial processes in the producing countries or through export. Both alternatives will be pursued. As far as exports are concerned, because of persisting problems with the economics of liquefaction, we might witness the development of a Mediterranean grid of gas pipelines which would become a strong attraction for industrial activities with a high energy content.

Finally some Mediterranean cooperation could occur also in the development of new technologies to utilize coal in liquefied or gasified form in order to take advantage of existing transportation infrastructure once the supply of hydrocarbons it was originally conceived for starts to decrease.

The role of the public sector: dangers of conflict and opportunities for cooperation

The public sector has played a crucial role in the industrialization process in the Mediterranean and will continue to do so in the future. This creates both dangers of conflict and opportunities for cooperation; the outcome will depend on the total installed capacity in some crucial sectors. The two sectors in which conflict is most likely are petrochemicals and steel. In both cases the increase in the production capacity of the Arab and European NICs cannot be singled out as a relevant cause of the overcapacity plaguing the European countries including some Mediterranean ones. Yet the problem remains because of the essentially regional nature of these markets, which is a consequence of global condition of excess capacity and of widespread protectionism. It is therefore necessary to establish a framework for cooperation among public enterprises in all Mediterranean countries in order to avoid the worsening of industrial conflicts which might easily spill over at the political level.

The impact of the European Community and its policies

The European Community plays a very important role for the future of Mediterranean industrialization. Most Mediterranean countries are either members or candidates to become members or have some type of agreement regulating their relationship to the Community. Analyses of these agreements point to the fact that the provision on trade liberalization have generally a limited impact, while financial clauses are potentially most important, provided the Community finds itself in a position to provide finance for Mediterranean industrial growth.

The impact of the EEC is felt however even more in connection with the overall conditions for growth. No individual European country can grow independently of the behavior of the rest of the Community.

The outlook for economic growth in Europe as a whole is not very encouraging. The need to fight a dogged inflation will lead most governments to opt for slow growth, not very far from +2.6% yearly on average. Consequences on the European countries will be negative unless some agreement is reached at the European level in order to manage financial flows allowing a differentiation in the rates of growth.

Migration and industrialization

Because of the overall conditions in Europe, the process of net outflow of migrant workers from the Mediterranean countries to the rest of Europe may come to an end. In the Arab world, on the other hand, migration will continue to play a fundamental role.

Return migration may have a positive effect on conditions for industrialization in some European Mediterranean countries.

By the year 2000 we may well witness a tendency towards a new kind of southbound migration, not different from the one taking place in the United States.

The financing of Mediterranean industrialization

The persistence of large surpluses in the balance of payments of some countries has raised a need for larger international financial intermediation. This task was undertaken mainly by the private international banks, which operate on the basis of often questionable criteria.

Among Mediterranean countries there was, however, only one country which was obliged to put a sudden end to a period of fast industrial growth because of lack of international finance. With this exception, and recalling what was already said on the importance of an EEC financial role to allow for differential rates of growth, financial constraints should not prove to be a major obstacle to Mediterranean industrialization in the coming years.

Industrial Cooperation in the Mediterranean : A Hypothesis

Recapitulating a number of key problems in the process of industrialization now under way in the less developed Mediterranean countries, we find that the growth of manufacturing activity in those economies will require solution of certain fundamental problems. These may be summarized as follows:

(a) Industrialization "downstream" from oil production represents additional productive capacity in sectors where the European Community is already strongly present; hence, it could take place only if there were a shift of such activity to the developing Mediterranean countries (MCs), with a simultaneous liberalization by the EEC with respect to imports of those products from the new Mediterranean plants.

(b) The strengthening and expansion of industries producing for the domestic markets of the Mediterranean economies requires breaking out of the narrow confines of national borders so as to properly exploit existing economies of scale.

(c) The current processes of industrialization, based on the exploitation of the MCs' natural resources and on the development of substantial basic industry, ordinarily state-owned, create economic and social tensions within each of the industrializing countries, with evident imbalances between the rise in incomes and the limited productive capacity for consumer and intermediate goods. In the more populous countries, such imbalances tend to be covered in the short tun by virtually exclusive recourse to imports. The only way to avoid greater and greater dependency on imported manufactures is to induce a parallel growth of light industry integrated with the basic industries already established, and for the most part this course is only open to the more heavily populated nations. However, this type of intermediate industrialization can no longer be based on simple import substitution under policies of autarky. Rather, to be sustainable and to constitute a driving force for each individual economy, it must be open to international competition, trying to find new outlets at the regional level, particularly in the markets of the "new" countries with rising incomes.

Consequently, these problematic aspects of industrialization assume a situation of rivalry among the various economies, inasmuch as efforts by any individual country or group of countries to obtain a new position in the industrial division of labor can always be interpreted simply as threats to the other countries. The industrial policies of the oil-producing MCs are in fact founded upon just such conflictual confrontations, thanks to the powerful weapon of energy supplies, which has shown itself to be an extremely effective tool for producing accelerated growth. If we posit such conflictual mechanisms as the only factors that generate industrializing drive, however, it would appear that the MCs' industrial growth "trail" cannot go much further than a conflict-ridden expansion of productive activity connected with energy resources.

Of course, we must ask whether there is an alternative to this conflictual scenario. Actually, we can imagine a "concerted" process of industrial transformation for the Mediterranean economies, by means of a policy of interregional cooperation, which could produce more positive results for all the countries of the Mediterranean area.

The substantial role of the state in the MCs' industrial policy has already been underscored. What is imaginable, now, is the end of the strictly "national" outlook that rules the activity of the MCs' public industrial enterprises, to establish regional cooperation among the various publicly owned industrial groups. Such an arrangement would provide a framework of mutual economic and social interest in which compromise agreements could be reached on exploitation of natural resources, "downstream" industrialization, marketing, and regional division of phases of production.

Obviously, such concerted action would not necessarily exclude private firms. But the main thing is to establish a framework of cooperation - necessarily a public one - within which all countries' economic and social problems can be properly considered.

Essentially, this hypothesis means getting over the "spontaneous" confrontation between Mediterranean economies, with oil-price rises, protectionist measures, and deflationary tight-money policies, that has so far dominated economic relations within theEEEC-Mediterranean macro-region. Oil price policies and the industrial countries' trade policies would thus be put in a new context -- sidestepping the world economic slowdown, it would spur growth in all the countries of the macro-region. Only in conditions of rising income for all the economies concerned, indeed, can we imagine the development of new manufacturing activities in the industrializing MCs together with an accompanying rise in industrial exports from the advanced economies.

The recession in the OECD area cannot help damaging the Third World's prospects for industrialization, relegating industrial development in the emerging MCs to the more modest status of growth hyper-concentrated in a few energy-based products.

Thus, the alternative - more dynamic cooperation between the less developed MCs and the European Community - is undeniably attractive. In conditions of rising world demand, it will be easier to make the needed production adjustments gradually, through a subsequent relocation of some energy-intensive production activities to the developing MCs, just as it will be possible to understand the benefits of creating new market-oriented manufacturing plants once the economic geography of the Mediterranean Basin becomes more decentralized.

The role of regional cooperation for the emerging MCs' industrial development is not limited to the EEC-Mediterranean dimension alone, however. Other intra-regional relations represent an interesting and only partially explored potential. We have already noted the desirability of encouraging new market-oriented industrial initiatives (i.e., of the import-substitution variety), no longer on an exclusively national basis but with a guarantee of regional distribution.

More diversified industrialization can only come about through joint ventures sponsored by several countries in the region (bordering countries, or horizontal groupings of developing MCs) - industrial investments that from the outset can count on more than one domestic market, through a regional distribution and marketing network. Necessary preconditions for success in this kind of operation are technology from the more industrialized economies and an institutional framework favorable to financing, realization, and commercial exploitation of new industrial investments on a regional basis. And by encouraging economic integration among countries that have been historically reluctant to engage in frequent commercial intercourse with one another. this kind of investment could assume a significance that transcends the strictly industrial sphere.