MALTA AND A UNITED EUROPE:

SOME ECONOMIC CONSIDERATIONS

MALTA has opened an Embassy in Brussels where her Representative to the European Economic Community presses forward her case for a form of relationship with the Community. It may therefore be useful to make some economic considerations on Malta and Europe. I propose here to dwell briefly on the economic aspects of European unity and then to discuss how Malta's interests are best served by adherence to Europe.

The main economic formulation of a United Europe is the Common Market, the design of which was first drawn up at Messina in 1955. That meeting had been convened by the Benelux countries 'to pursue the establishment of a United Europe by developing common institutions, by the progressive fusion of national economies, by creating a common market, and by the progressive harmonization of social policies'.

But the Common Market Treaty had to wait two years to be signed – in Rome on March 25th, 1957.

The aim of the union envisaged under the Rome treaty has been not merely the abolition of custom barriers but an attempt at coordinating the economic policies of the various European states and thus to create a strong economic unit comprising an economically-united Europe.

The Common Market has emerged as a very powerful economic force, with virtually half the productive output of the United States and commanding a market that is slightly larger than that of the United States – all this is a land area that, covering 450,000 square miles, is only one-eighth that of the United States. As a single economic unit, the market is in fact ahead of the Soviet Union and second only to America.

Much of this enormous economic strength is derived from the very structure of the Common Market Countries whose national economies are competitive rather than complementary. Though Italy still has an agricultural sector that is proportionately more important than that of the other countries of the European Economic Community, while the Benelux countries and West Germany rely more on industrial output, yet there is an overall similarity in their structure of production. The really interesting characteristic of this structure is that the countries of the community sell over a third of their exports to one another.

The main economic work of the Common Market resides besides in the Assembly and in the Council of Ministers, in the Commission which helps to formulate policy and is charged with the administration of the community. The work of the Commission is aided by the Monetary Committee and the Social and Economic Committee.

The Commission is undoubtedly the most influential force within the Common Market since it develops policies and programmes which the Council of Ministers may either accept or reject as a whole, but may not change except by unanimous vote. It is responsible for the European Community's external tariffs, agricultural policy, the maintenance of competition, social policy, quotas and problems affecting the Balance of Payments. The Commission is also responsible for grants for social projects in the Overseas Development Fund.

But since, at the present juncture, the Common Market is essentially a customs union, it is natural that most of the detailed arrangements apply in this field, particularly vis-a-vis internal trade, a uniform external tariff and quota policies.

Yet the Common Market has managed to expand its branches to cover other sectors of economic life, notably in the free movement of labour, capital and entrepreneurship within the community, in the removal of restraints on trade, in the harmonization of the economic and social policies as well as standards of living of member countries and in the establishment of common operating agencies.

Even so, Common Market countries feel that they have to go beyond present coordinating facilities. Since the main uniting instrument still remains the customs union, it is evident that much of the work of the European Economic Community and of the very benefits of the customs union may be reduced or abolished by the private action of one state or another. It is also recognised that a full measure of economic unity cannot be attained unless within the context of a wide political union with a fully responsible parliament for a fully united Europe.

Such a unity is still rather remote because there are, among other factors, a number of states absent from the Common Market. These include the Outer Seven who, in order to avoid placing themselves in an inferior economic position in relation to the Common Market countries, joined forces in 1959 through the Stockholm Convention. The main effects of the Convention were the formulation of a simple schedule of tariff reductions and liberalization of quotas, a 'rule of origin' system to prevent trade deflections as well as an overall ban on governmental or private restrictions on trade or discriminatory actions which might affect adversely the concessions made under the treaty.

The European Free Trade Association is dominated by the United Kingdom, which produces about 60% of the Association's output. EFTA has an area that is slightly larger than EEC but a population that is little more than half as large. In terms of economic growth, however, the Common Market has been far ahead than the EFTA countries. As an economic force, in fact, EFTA has shown itself no match for EEC.

But economic divisions in Europe were not created by the establishment of the Common Market – or by the attendant reaction in the formation of EFTA. The divisions already existed. If anything, the two economic blocs gave Europe a stronger power than one split up into 18 independent nations acting in their own unrestrained self-interest.

Though there is a measure of rivalry between the two groups, yet there has been no acute economic warfare. But there is no doubt that Europe can never become politically united unless and until the two blocs merge into one gigantic economic power controlling, in the interests of a free and united Europe, the trade of the world.

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Malta, I am sure, has a vital role to play in this emerging pattern of a united Europe. Despite the setbacks the Market may have suffered in its as yet short life, the future of Europe lies undoubtedly in economic cooperation and integration leading to a fusion of politic life into one homogeneous political system. As Malta deliberates with her sister nations on the Council of Europe, it is natural that we should look forward to the day when Malta will be part and parcel of an economic and political reality called United Europe.

But can Malta really enjoy positive advantages through a form of membership within the European Economic Community? Can, or should she, at some future stage shed her participation in Commonwealth preference? Should she refrain from entering the Market as long as Britain remains without?

Malta has, of course, a particular interest in trade groupings, and especially in Britain's relationship to and position in any such regional groupings.

Malta's interest in such development is all the more understandable given the fact that her industry is still in its early stages. Given the smallness and the limitations of the domestic market Malta's industries could and can only become viable if they are export-oriented. Indeed, the official policy of the Malta Government has been and is to encourage, through technical and financial aids and incentives, industrial projects which have exports as a principal aim.

Malta has, of course, still a long way to go to make her visible exports a mainstay of her Balance of Payments;at the moment the Islands import far more than they export, making up the balance (and normally achieving a surplus) through invisible exports hitherto provided by the British Services and now, increasingly, through tourist expenditure. But with the expansion of the industrial base Malta's industrialists will naturally be making a greater effort on overseas markets.

In her efforts to expand her trade, Malta has met a number of obstacles mainly in terms of tariff and quota barriers imposed by regional groupings or national limitations both within and outside the Commonwealth. Malta at the moment directs about one-third of her exports to Britain; but Malta has been able to achieve this figure after considerable sacrifice.

For in Malta's experience, some of the advantages that might have been expected to accrue through Commonwealth preference did not always materialize. Sometimes, it was precisely in those areas where Malta was trying to forge ahead in her industrial expansion that Commonwealth preference was found to be of little use.

Thus, while textiles, and particularly cotton goods, formed, in the early years of industrialization, the bulk of Malta's industrial output and while it appeared that Britain provided the ideal market for such goods, Malta's textile importers suddenly found themselves faced with severe quota restrictions imposed by Britain. A similar difficulty was encountered concerning the export of stockings and gloves to Australia.

In these circumstances Malta has, not unnaturally, started to look more and more to new markets outside the Commonwealth. Due to her physical proximity to Europe, Malta has tried to reach Continental markets. And it was here that the fact that she belonged to no major trade grouping began to tell adversely. For despite the relatively low costs of production, it was found that tariffs put the price of Maltese products so high as to make them frequently uncompetitive on European markets.

It is then evident that Malta need not be unduly perturbed if Britain joined the Common Market. Britain is still, by a wide margin, Malta's principal exporter. It is not likely that if Britain eventually joined the Community there would be a drastic overnight shift in the main source of Malta's imports.

Assuming, in the first place, that Malta, along with Britain, joined the EEC, then, Malta would seek to diversify her exports and she could conceivably export proportionately more to the Continental countries of the EEC than she is, at the moment, to Britain.

Assuming, in the second place, that while Britain joined, Malta remained without, then it would be clearly in Malta's interest to join another trade grouping; just as, presumably, it would be in Britain's interest to join another trade group (the North Atlantic Free Trade Area has been suggested) or to give a new structure to EFTA, if she were unsuccesful in her Common Market bid. In this second assumption, Malta's interest could possibly lie in the direction of a North African Common Market in which Libya could be the lynch-pin.

It has been suggested above that Malta would probably still benefit by a form of EEC membership if Britain did not join the Community. It might be argued that, for reasons of international political strategy, European countries would look favourably towards Malta gaining a form of EEC membership.

And Malta herself could benefit through such an attitude if EEC countries looked at Malta as a useful base on which to establish industries directed towards North African markets for whom Malta is, for many reasons, quite acceptable. It is because of this distinct possibility that Malta could be interested in joining a North African Common Market if she were unable to achieve a form of membership with the EEC.

Frankly, from Malta's standpoint, the continuation of Commonwealth preference has a decreasing value. And in the event that Britain were to seek a new trade group as a result of her non-admission to the Common Market, Malta would have little to gain or to lose through such steps.

It must not be inferred from the above that for a country like Malta, Commonwealth preference appears a thing of the past; but if it is to have any real validity in future as a system, the system of Commonwealth preference must undergo a profound change; one that, however, it is not easy to envisage clearly as the Commonwealth today is a mixture of countries with a wide divergence in their economies and in their economic system.

Malta, is of course, proud to be an independent nation within the Commonwealth of Nations; and her hope in its enduring value is that it will eventually evolve as a group of nations that, while not rigidly bound together by stringent trade ties and tariff regulations, may remain united through the bonds of mutual knowledge often steeped in a common heritage of British traditions.

But from an economic standpoint Malta must increasingly shift her gaze to Europe: for in European unity lies the valid hope of Malta's growing role, economically and politically, in a world of change.

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