

# Assessment of the Barcelona Process from the Mediterranean Partners' Perspective

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## The Genesis of the Barcelona Process

The Barcelona Process was initiated with the aim of establishing a regional entity which was advanced economically, politically and socially. This aim was to be achieved in three ways: Firstly, by maintaining stability to allow for the implementation of economic and social reform. Secondly, by economic development through gradually establishing a free trade zone which was mainly for industrial products. This was to be supported by financial support from the European Union (EU) to assist structural adjustment and the creation of an environment favourable to private enterprise and foreign investment. The third necessity was to reduce the social costs linked to structural adjustment. The expectation was that the dynamics of the Barcelona Process would induce changes; the shock of competition would push the Mediterranean Partners (MPs) into modernising and would stimulate reforms. On the other hand, it was also expected that the South-South integration would be a natural consequence of the North-South opening, and that the "contract" agreed with the EU, and the credibility attached to it, was going to favour external investment. The result of these three points of view has been varied as we shall see below.

When the Barcelona Process began in 1993, the EU's partners, the MPs, were slightly above the lower bracket of middle income countries, apart from

Israel which had a per capita income close to high income countries. This situation has not evolved very much since then and at the end of this period the MPs were still below the average of middle income countries. Elsewhere, if we compare the evolution of that indicator (i.e. income) to the EU15 and the New Member States (NMS10), we can only ascertain a process of divergence which has regularly increased since the start of the 1980s. It is also manifest that the Barcelona Process was unable to modify this trend.

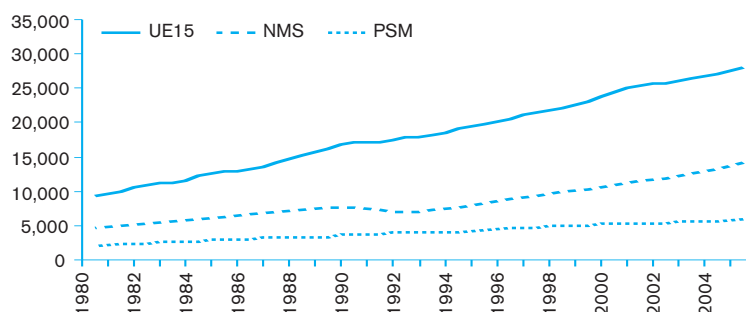
Of course the partnership is not to be blamed for this setback which is largely due to the behavioural and structural conditions of the MP countries. In the mid 1990s the MPs' situation was characterized by:

1. An undeniable macroeconomic convergence due to the various structural adjustment programmes at work since the 1980s.
2. A high level of vulnerability to external shocks (raw material and energy prices, and slow growth in more developed countries).

3. Self-centred systems still largely closed despite pockets of liberalization (tax free zones, passive improvement areas).
4. Investment levels only just recovering to the levels of the 1980s, producing growth rates slightly under 3% per annum, with structural changes which had taken 15 years to realize: private investment had become greater than public investment.
5. A relatively modest external anchorage to Europe through an updated Mediterranean policy.
6. Less significant absolute poverty than in other parts of the world, but very high unemployment rate, particularly among the young.

The above issues shaped the risks for the MP countries. It became clear that these countries have to decisively move on to the next three stages of economic transition, which follow stability and good macroeconomic management. This refers firstly to the liberalization of the goods and services markets, starting with the opening up to external exchanges which would lead to replac-

GRAPHIC 10 Evolution of GDP per Capita (PPP). 1980-2005



Source: IMF WEO, April 2004.

ing a domestic market pricing system, distorted by the protections and fixed price systems, to the system of relative international prices. This also involves modifying the law, the regulatory framework and above all how the institutions function to create a favourable business climate. Finally, it also means allowing a noticeable alteration of the growth path, due to a dynamic competitiveness and the attraction of portfolio investments.

### **The Performance of MPs after Barcelona**

The economic logic of the process was essentially orientated towards the dismantling of industrial tariffs, whilst the bilateral accompaniment of MEDA has focused on structural adjustment and sector reforms. However, as the contract was relatively loose and not very structured for both public and private partners, the EU did not have the means to formulate its aid. On the other hand, joining the EU acted as a force attracting NMS10 countries and encouraging them to commit to structural adjustment, being backed up by funds from the EU. This can be seen in Turkey, who has placed joining the EU as one of its priorities since it accepted its status as candidate to the EU, and has used this as a basis to define its reform programme.

It is in the wider framework of the European policy, called Neighbourhood, that the strategic partnership between the EU and MPs should be successfully completed. This is the second determining "unilateral" option for Barcelona. This new European policy originated in the Treaty Project establishing a European Constitution handed to the President of the European Council on 18th July 2003. It addresses Russia, Ukraine, Belarus, Moldova, all the MPs, Azerbaijan and Georgia.

Several elements are necessary to attempt to appreciate the European Neighbourhood Policy (ENP). Firstly, we must emphasize that this initiative is situated in a deeply modified context for the MPs. In 1995, Barcelona covered a Europe of 15 + 12 whereas we have progressed to 25 EU members, 3 candidates and 9 MPs in 2004.

As for the Neighbourhood Policy, it now involves 25 EU members, 3 candidates and 6 potential candidates, plus 16 neighbours (9 of which are MPs).

The majority of the MPs have largely reduced their budget deficit and are now in control of it. In general, there have not been any defaults on the commitment to carry out a "healthy and credible" fiscal policy, except recently following serious external and internal shocks. MPs are encouraged to improve the convertibility of their capital account so as to attract foreign capital in face of commercial integration and the need for foreign exchange that emerges from it, as well as in the face of the need to create employment opportunities and attracting investment. The Barcelona Process was based to a large extent on tariff dismantlement. From 1992 to 2003, the average customs duty in industry has fallen throughout the Mediterranean countries by about 11 points. However, compared to the new members (NMS10), to Latin America and the Asian zones, Mediterranean countries still have the highest tariff protection. At the start of the process, levels of customs in the region varied from 8% in Israel to 64% in Morocco, with maximum tariffs going from 38% in Turkey to 160% in Egypt. Morocco, Tunisia, Egypt, Algeria and Jordan are considered to have the highest rates of custom duties. Countries have been dismantling at different speeds. Between 1993 and 2003, Morocco has reduced its tariffs and maximum duties by 57% and 65% respectively. During the same 10 years, Algeria and Tunisia have reduced their tariffs by 6% and Egypt by 8%. Even Mediterranean countries with low customs duties like Turkey, Lebanon and Israel, who had almost identical level of duties of about 9% have reduced this average to 4% in Israel and Lebanon and 5.2% in Turkey. All Mediterranean countries impose high customs duties, especially on food and drink, manufactured tobacco based products, clothing and leather.

In all Mediterranean countries, with the exception of Tunisia and Jordan, the rate of customs duties on consumer goods has decreased the most. It is also interesting to note that the biggest fall in customs duty is that on goods from the USA; while customs duties

between Mediterranean countries themselves has fallen the least, indicating the low level of integration between these countries. The failure of South-South agreements to lead to reductions in tariffs can be attributed to two main reasons: the first is the high number of ratified agreements recently, such as the Agadir Process signed in February 2004 by Morocco, Tunisia, Egypt and Jordan; the second is that in many cases implementation is limited particularly by lack of political will and the large size of the public sector. It should also be noted that the similarity in the production structures of the countries involved is likely to undermine the success of integration. In any case, tariff dismantling alone will not show much positive effect without other conditions being in place, such as progress in capital accumulation, education and institutional development.

Despite the general decrease in *ad valorem* rates, obstacles to developed countries' markets have not been reduced. In fact these obstacles might be increasing due to a number of factors. One factor is the use of specific duties instead of *ad valorem* duties, and the former is much less transparent than the latter. Also, as the price of basic products is falling, they are being subject to specific duties which results in an increased rate of protection. Another factor is the increased use of non-tariff barriers such as technical norms and regulations concerning hygiene, food and environmental safety, which despite their importance are also considered protectionist tools. Moreover, the issue of agricultural protection in the EU is one of the major obstacles to the creation of a coherent EuroMediterranean partnership as the EU has developed a set of regulations that are making access to its markets more difficult.

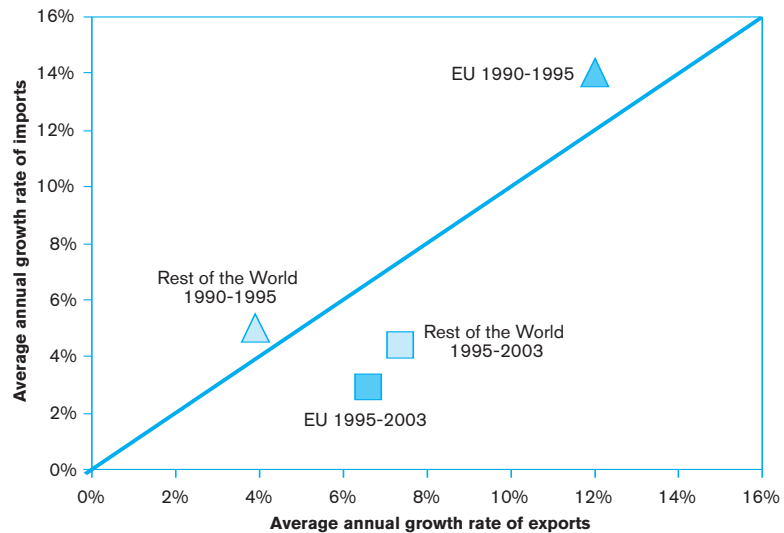
As the internationalisation of the MPs economies continues the preoccupations with the real exchange rate become more significant. An overvalued exchange rate has proven inconvenient for those MPs who have progressed most in opening up their economies. It can be seen in most MPs where a recorded improvement in balance of payments is linked to the depreciation of the real exchange rate (e.g. notably

in Egypt, Tunisia, Jordan). On the other hand, Morocco which has witnessed a steady rising trend in real exchange rate has suffered a continual degradation.

The trade situation between the MPs and the EU is highly asymmetric as the EU contributes about 50% to the MPs' foreign trade while the MPs contribute only 6% to the EU foreign trade. During the last 10 years, the MPs' share in the European markets did not evolve notably. In 1993, the MPs accounted for 5.7% of total European imports, 4.9% in 1995, to finally reach 5.9% in 2003. Oil products excluded, the MPs' market shares are even smaller. Starting from similar situations in the middle of the nineties with almost 12% of the European market shares, in 2003 the NMS amounted to twice the shares of the MP, all products combined, and almost three times if oil products are excluded. Among the MPs only Turkey and to a lesser extent Morocco experienced favourable growth on the European markets. During the same period, the Europeans lost market shares in MPs, as they amounted to 8.8% of MPs imports in 1993, 7.9% in 1995, and more than 7% in 2003.

The progression in some indicators – such as percentage of exports of GDP or the share of manufactured goods exports relative to total exports – suggests obvious progress of the MPs in terms of international openness. However these indicators do not take into account the nature of specialization and of its impact on national production structures. It is necessary to determine whether the direction of these production structures towards manufactured goods will be met by a favourable demand from the trade partners on the one hand, and will enable the countries to diversify their exports range on the other hand. The exports from the MPs specialize increasingly in highly labour-intensive and average technology intensive products; a phenomenon that specifically characterizes exports to the EU to which more than half the exports are based on the use of unskilled labour and natural resources. Exports to the Rest of the World (RoW) have a larger technological content than exports to the EU. It should be noted that the phenome-

GRAPHIC 11 MPCs trade mean annual growth over two periods



Source: Comtrade – Calculation: Institut de la Méditerranée.

non has heightened over the period 1995-2002.

Industrial restructuring has enabled the development of the share of manufactured products with primary products and has led the MPs to specialize in low-technology products with little value added. They have hence not been able to develop intra-industry type trade relationships with their trade partners and their commercial structures do not compare with those of their close partners. A certain number of countries are moving increasingly closer to their European partners (Tunisia, Morocco, Turkey, and to a certain extent Jordan, at the end of the period), whilst the others (Egypt, Lebanon, Israel, Syria) are reinforcing their commercial relationships with the rest of the world. The first group has adapted themselves better to European demand but their exports have not diversified. Furthermore, the technological level of exports remains low and is developing slowly. The countries in the second group would seem better adapted to the demand of non-European countries and their exports to these partners have diversified.

Overall, structural adjustment in the South Mediterranean Partner Countries (MPs) aimed to withdraw from direct intervention and pave the way for the private sector to lead the growth

process. As public investments were gradually being retrenched, the private sector failed to fully step in due to numerous impediments that remained prevalent in the business environment. Although the Barcelona Process offered a mechanism for the MPs through which they could anchor their regulatory reforms to successful models in the EU, this opportunity had been undermined by the lack of serious commitment to market-based reforms. Only in recent years have a number of MPs realized that the potential for growth in their economies relied on the capacity to attract sizable investment flows (both domestic and foreign) to accelerate the pace of economic growth and reduce current unemployment levels. The proliferation of benchmarking studies and analytical tools highlighted that most MPs lag behind their comparators in terms of attractiveness of the business environment.

The effect of the trade liberalization inherent in the Barcelona Process on businesses in the MPs can be considered limited since the fall in prices of imported intermediary and capital equipment resulting from the reduction in tariffs is likely to be offset by the rise in the currency in which these products are priced. Trade liberalization should also increase competition through imports. In addition, trade lib-

	EU			Rest of the world		
	1990	1995	2003	1990	1995	2003
Low competence – and technology – intensive products	4%	5%	6%	7%	7%	8%
High labour – and resource – intensive products	33%	45%	44%	40%	38%	35%
High competence – and technology – intensive products	16%	14%	15%	19%	21%	22%
Average competence – and technology – intensive products	5%	10%	20%	8%	10%	14%

Source : Comtrade – Calculation: Institut de la Méditerranée.

eralization can reduce the incentive to invest on research and development as well as new technology as businesses face competition from imports and expect a fall in their sales. However, the exact effects that took place in Mediterranean countries because of tariff dismantling is difficult to determine because of the lack of data on firms in these countries. Besides, only specific country case studies can enable us to reach any conclusions in this regard.

As for the FDI situation in the MPs, in 2003 FDI in MPs was at US\$ 9 billion which is the same as the 1990 level and is a little more than what Poland alone has received. FDI in the New Member States has also witnessed a fall in FDI directed to them in favour of Asian countries. This is mainly attributed to an increase in labour cost per unit. Investments in MPs mainly flow into the following sectors: energy, telecoms, GSM licensing, cement mills, tourism and hospitality, and food-processing. In comparison, FDI to NMS is more oriented towards the industrial sectors. The “green-field” based investment share remains marginal. For most MPs, privatization efforts and investment in

infrastructure have managed to attract significant levels of FDI. Israel is the largest receiver of FDI among MPs, receiving 28% of FDI stocks. Egypt and Turkey receive 17% and 19% respectively of FDI stocks in the region. Tunisia accounts for 15% of FDI stocks and Morocco for 10%. In terms of the origin of FDI, EU seems to be the main provider.

The migratory phenomenon is also worth mentioning in the context of the Euro-Mediterranean Partnership. Considering only the legal inflows of migrants to Europe, we find that they follow an increasing trend particularly to European countries previously not very open to immigration. This increasing trend can be attributed not only to the income differential between the host countries and the source countries but also to the age differential between those countries. The European demographic structure has a progressively ageing population and the increasing rates of youth unemployment in most MPs result in the phenomenon of replacement migration.

So far, several Mediterranean countries have already signed association agreements and implemented other trade

enhancing legal reforms, such as import liberalization measures, customs regulations, intellectual property rights laws, harmonized commodity description coding and duty drawback. Yet, a lot still has to be done in terms of the quality of these reforms in terms of administrative efficiency, decentralization, recognition of civil society and better law enforcement.

## Future Prospects

With the establishment of the European Neighbourhood Policy emerges a need to formulate a vision for the future on how to deliver what the Barcelona Process failed to do. The new perspectives ahead for the EuroMediterranean Partnership depend on three fundamental points. Firstly, it is extremely important that the ENP strengthens and complements the Barcelona Process and does not result in watering it down through bilateral EU-Med relations that override the multilateral dimension. Secondly, more importance has to be given to South-South integration as it has a complementary effect with the proposed objectives of the Barcelona Process and is likely to promote economies of scale in the involved countries. The experience of countries newly acceding to the EU can be useful in specifying areas of development such as the participation in international production chains and subcontracting between North and South. Thirdly, the ENP allows for the possibility of anchoring reforms to EU benchmarks. This anchoring will act as a driver for reform in the region and is likely to facilitate the process of gathering stakeholder support (including gov-

	Textile Clothing	Computers & telecom	Electronic Components	Transport equipment	Non-electric Machinery	Natural resources
With the EU	Morocco, Tunisia,	Turkey,	Tunisia,	Jordan,	Jordan, Romania,	Jordan,
	Turkey, Romania,	Czech Rep.,	Lebanon	Hungary	Poland,	Algeria
	Bulgaria	Hungary, Jordan			Czech Rep.	
With RoW	Jordan, Egypt	Romania	Morocco		Tunisia,	Morocco,
					Czech Rep.	Tunisia
With both			Turkey, Hungary	Turkey, Poland,	Turkey,	
				Czech Rep.	Hungary	

## PROPOSALS FOR A RENEWED SOCIAL DIALOGUE IN THE MEDITERRANEAN ZONE

Faced with the delocalisation of multinationals to the countries on the Southern shore of the Mediterranean, and with the migratory flows generated by growing inequalities, the two coasts of the Mediterranean are confronting numerous difficulties.

On both the Northern and Southern shores of the Mediterranean workers are under the impression that the sacrifices inherent in the restrictions and adjustments that are required in order to adapt to the Euro-Mediterranean and international environment are not shared out equally.

The questions posed are of considerable importance. They concern:

- the acceleration of globalisation, which results in the legal working conditions of employees in the different countries being challenged by the increasingly direct competition exercised by multinational companies, with the effect that social standards are lowered and women are subjected to excessive exploitation;
- the pressures to liberalise the exchange of goods, services and capital, accompanied by a policy of restricting people's freedom of movement;
- the malfunctioning of the system of social dialogue in the countries on the Southern shore of the Mediterranean.

Three objectives may therefore form the subject of co-operation between trade unions and social partners on the Southern and Northern shores of the Mediterranean so that social dialogue is accompanied by a "socialisation of the costs and benefits":

### **1. Defence of the social rights of migrant workers in the North, victims of racism, xenophobia and discrimination, in connection with accessing employment and the labour market.**

In this context it is crucial to:

- plead for respect of human rights on behalf of all migrant workers and their family members;

- launch, and if possible, co-ordinate national campaigns and activities conducted within Europe and throughout the world with a view to encouraging ratification of the UN Convention on migrant workers;
- adopt measures on equal social rights and policies for migrants, in particular in the areas of employment, housing, health, education and family reunification;
- grant the right to vote and eligibility to long-term resident foreigners, in particular at local level, in all the countries in the Euromed and European area and in the Member States of the European Union;
- combat all forms of discrimination, racism and xenophobia;
- grant civil rights to migrants, in particular the right of association, by strengthening the instruments of clubs and societies, in particular by applying impartial criteria with regard to access to financing.

The trade unions of the Northern shore have a valuable role to play in getting their States to ratify the International Labour Organisation (ILO) Convention of 18/12/1990 on the rights of migrant workers in the North, which will have a beneficial impact on this matter.

### **2. Adherence to the ILO codes of conduct by the subsidiaries of multinational firms delocalised to the Southern shore of the Mediterranean, with a view to making the Northern shore countries' experience, in terms of social dialogue, and the European Union's advances in this respect, available also to the countries of the Southern shore.**

In this context and in order for trade unions to have their say in the regulation of globalisation, it is necessary to set up networks to foster international dialogue. Euromed could organise campaigns, meetings and assemblies of the activists and elected members of multinationals who have a specific responsibility by reason of the global location of their company.

These activists have a role to play in urging their companies to adopt modes of behaviour

that comply with social and environmental regulations throughout the Euromed zone.

The objective of these networks is to exert a degree of influence on the European multinationals delocalised to the countries of the Southern Mediterranean with a view to making progress on the objectives of sustainable development and advancing corporate social responsibility (CSR).

**3. To draw inspiration, without mimicry, from the European social model and the varied experience of social dialogue with a view to consolidating the minimum common social standards defined in the Declaration adopted by the International Labour Conference in 1998 on fundamental social rights,** and which reconciles the universality of fundamental rights with the distinctive features of the local socio-economic contexts. It is a question of working out a relevant system to revive social dialogue on the Southern shore of the Mediterranean with the support of trade unions and European social partners.

**Implementation of these three objectives requires the creation of a Euro-Mediterranean platform made up of trade unions, NGOs, and socially responsible companies.**

**The creation of a reliable instrument in the form of a Euromed observation post for social rights may constitute a valuable tool for this purpose.**

It should also be pointed out that this entire programme requires a reorganisation of the Euromed Trade Union Forum (ETUF), which must reflect trade union diversity and open up, in one form or another, to the NGOs coming from the trade union milieu of the Southern shore and/or those having affinities with its problems and concerns. The trade union milieu of the South has its own characteristics, which differ from the political, economic and social context of the countries of the North.

Habib Guiza, trade unionist  
President of the Mohamed Ali Association of  
Workers' Culture – Tunisia

**TABLE 5 The regulation of Market Entry and Exit in the MPCs**

Country	Starting a business		Closing a business		Informal Economy (% GNI, 2003)
	Time (days)	Cost (% of income per capita)	Time (days)	Cost (% of estate)	
<b>MPCs</b>					
Algeria	26	27	4	4	33
Egypt	43	63	4	18	35
Jordan	36	52	4	8	19
Lebanon	46	132	4	18	34
Morocco	11	12	2	18	36
Syria	47	34	4	8	19
Tunisia	14	11	1	8	38
<b>Comparative group</b>					
Chile	27	10	6	18	20
Israel	34	6	4	23	22
Poland	31	21	1	18	28
South Africa	38	9	2	18	28
Turkey	9	26	3	8	32
UAE	54	27	5	38	26
Maximum*	203	1268	10	76	-
Minimum*	2	0	0	1	-
Average*	51	87	3	17	-

\* Maximum, minimum and averages are calculated for all the countries included in the Doing Business Database.  
Source: World Bank, Doing Business Database (2005).

ernments, the private sector and the civil society).

The future vision for Euro-Mediterranean cooperation should be based on the

following four primary axes. The first is the deepening of the reform process ongoing in the MPs and extending it to sectors of economic activity in addition to the sectors directly concerned with economic liberalization, through removal of tariff and non-tariff barriers, as well as administrative barriers, such as red-tape and customs formalities. There also has to be special attention given to the issue of the harmonization of rules and standards applied to imported products. Furthermore, it is important to improve infrastructural links (road, rail, sea) which if neglected also act as barriers to trade. The second is the active engagement of the private sector, the business community and the civil society. Financial and technical assistance from the EU should be linked to institutional reform. Greater funding needs to be directed towards enhancing links between civil society and the private sector and improving the rule of law and good governance. The third is the crucial pre-requisite of improving the business environment for domestic and foreign investment, particularly by investing in human capital and know how. Finally, monitoring mechanisms should be established by building a knowledge community and emphasizing the role of research centres.

## PROGRESS MADE IN 10 YEARS BY THE ECONOMIC AND FINANCIAL PILLAR OF THE BARCELONA PROCESS

The ongoing work of the Unit "*Economic Affairs of Mediterranean Countries*" from DG ECFIN of the European Commission is the basis of this assessment. Dealing as well with the "*Economic Aspects of the Neighbourhood Policy*," the document makes an overall assessment of the state of play of the economic domain of the Barcelona Process. This work has been translated into a document that provides an assessment of the economic aspects of the Barcelona Process and, secondly, gives an overview of recent macro-economic and structural developments in the Mediterranean countries, especially related to the second pillar of the Barcelona Process. Ten years after the start of the Barcelona Process, economic and social development should have achieved a higher degree of prosperity, although some improvements such as (timid) global trade integration, controlling inflation and an increased macroeconomic stability have provided further inputs and incentives for structural reform. At this macro level, it is also important to underline the fact that current fiscal balances (as a % of GDP) are being redirected towards a path of equilibrium in the mid and long term, and this is a positive trend. Country performance also depends on the energy resources available for each country (such as Algeria). Although there have been some improvements, convergence in income levels has remained broadly unchanged with respect to

EU averages. The economic development in the MED region has not brought enough strength to face the still high rate of population growth. This growth is especially demanding on the collateral needs of the population, and in particular, in the field of education and in the capacity of the system to place them into a labour market that faces the challenge of absorbing them. This is a key factor in developing the region with social cohesion. Other important indicators tell us that general health conditions in the MED countries are rather mixed (for example, Jordan, Israel and Lebanon, as opposed to Morocco). Concerning gender equality, there is a lack of women outside the agricultural sector, although it is improving substantially (i.e. the female labour force and literacy rates are increasing), although their presence in the education sector and later in the labour market still face barriers of discrimination. One positive, non-ambiguous indicator of the integration in the global economy is the degree of openness of MED countries, which was up to 62% of GDP (exports and imports) in 2003, after being just 36% in 1995. Since the Barcelona Declaration, the most trade (in goods) has been observed in Algeria and Egypt, and it is even higher to the rest of the MED countries (in line with world trade growth average). Another aspect which needs improving during the next decade involves two related

issues: governance and market-oriented reforms. The report concluded that MED countries are still "mostly free countries," with a heavy regulatory burden, constrains on the private sector, various types of unpleasant bureaucracy, price controls, at times corruption, a lack of fiscal reforms, government intervention in trade and slow economic transition, particularly in the areas of trade, competition, corporate taxation and liberalisation of network industries. In conclusion, the report states that although some aspects of the quality of life have changed and there has been an increase of around 35% in the income level per capita for the last ten years, overall progress in shared prosperity has been rather moderate (Mediterranean income has remained at 18% of EU income per capita). Progress in improving access to water sanitation and significant progress in child care appear to be significant enough in order to meet part of the Millennium Development Goals. However, to establish a fully functioning market economy, the New European Neighbourhood Policy has still a long way to go in order to anchor these economies and to bring them to the EU Economic Model

The complete document can be found at: [http://europa.eu.int/comm/economy\\_finance/publications/occasional\\_papers/occasionalpapers17\\_en.htm](http://europa.eu.int/comm/economy_finance/publications/occasional_papers/occasionalpapers17_en.htm)