Strengthening the Euro-Mediterranean Link through Investments

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It is a known fact that the Mediterranean today is one of the world regions where, within a very limited geographical space, great differences exist in terms of development. Income per capita of the countries on the southern shore of the Mediterranean is much behind that of the countries of the European Union: in 2002 the income per capita of all Mediterranean Partner Countries (MPC)[1] was below 20% of the EU average. And this difference, far from being reduced, tends to increase.

Already for some time, the European Union has carried out several initiatives and programs to contribute toward development of the region. The Barcelona Declaration (1995) marked the beginning of a structured process of relations with these countries, revolving around three components (political, economic and social) and signifying the start of two very important initiatives: the MEDA program, providing aid for transformation (the so-called *mise à niveau* of those economies) and the Association Agreements, which, amongst other clauses, proposed the creation of a Free Trade Area in the Mediterranean by the year 2010.

Consequently, an approach that was largely based on the principle of *aid plus trade* was prioritized, from which, in practice, significant results have been obtained (the economies of the south have partially reformed and their commercial exchanges with the countries of the European Union have increased very significantly), although these improvements are clearly insufficient. It is worthy of note, whilst avoiding at this point any analysis of the reasons of the aforementioned insufficiencies, that the chosen strategy did set aside the promotion of private foreign investment as a primary element of transformation for these economies. In other words, hardly any specific instruments were foreseen to promote direct investment of European companies in countries in the south.

Partially due to this fact and partially due to the general development of the region, the evolution of Foreign Direct Investment (FDI) in MPC has been very disappointing. Therefore, although in absolute terms FDI has increased since the launch of the Barcelona Process (except in Algeria), in relative terms, the weight of MPC in the global context has receded significantly. In the second half of the 1990s, MPCs lost attractiveness as receptors of FDI, a situation that has not varied significantly in the first few years of the new decade.

The lack of FDI is not only a consequence, but also a cause of the current bad situation of these countries. Without an important flux of FDI it will be difficult for these economies to grow in a sustainable manner, which in turn makes it very difficult to absorb the new workers that increase the active population every year. This effectively contributes to the perpetuation of high unemployment indexes and, on occasions, of social conflict. In conclusion, it is a vicious circle.

Breaking this vicious circle is not easy and most probably requires simultaneous action on several fronts. It is necessary to accelerate the current structural reforms to the economy (sector liberalization, privatization of state-owned companies, etc.), improve the formation of human capital (illiteracy indexes in the region are around 40% of the population), as well as promoting a stronger regional economic integration that permits market sizes to increase, thereby allowing the exploitation of economies of scale and their corresponding reduction in costs. All these steps are necessary and, undoubtedly, an important part of the responsibility for their realization lies in the governments of MPCs themselves.

However, it is also true that there is ample room for improving the financial instruments that the European Union countries put in place to help companies invest in MPCs. It is likely, at present, that the problem does not lie in the availability of resources at affordable costs or in the lack of particular aids or grants, but rather what appears to be lacking are instruments that will help businesses reduce or share the risk from investing in MPCs. Together with a renewed political commitment, this is probably the most important contribution that can be made from the European Union to strengthen Euro-Mediterranean ties.

Historically, Spain has been a leader for the development of these ties. Spain was a decisive promoter of the Barcelona Declaration in 1995, as well as of the

[1] Includes: Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey.

TABLE 16	GDP per capita index (Purchasing Power Parity)		
	1990	**1999**	**2001**
EU average	100	100	100
Mediterranean Third Countries	20.8	19.9	17.6

Source: World Bank, IMF, UNDP (2002).

TABLE 17	Distribution of FDI (% of total FDI)		
	1990-1994	**1995-1999**	**Evolution (%)**
Developing Countries	33.8	33.2	-1.7
Latin America and Caribbean	10.5	12.2	16.2
Southeast Asia (excluding China)	10.3	8.1	-21.3
Central and Eastern Europe	2.4	3.5	45.8
Mediterranean Region	1.2	0.7	-41.7
Others	9.4	8.7	-7.4
Maghreb	0.38	0.22	-42.1

Valencia Action Plan in 2002; moreover, it was under the Spanish Presidency of the Union in the first term of the same year, when the proposal was made to create a Regional Development Bank for the Mediterranean, following the example of the European Bank for Reconstruction and Development created for Eastern Europe in 1990. This proposal did not prosper, but it was not rejected either. Due to a lack of consensus at the time, it was decided to postpone the decision and, in the meantime, to create a financial facility within the framework of the European Investment Bank (EIB), focusing primarily on promoting FDI in MPCs. For the first time, therefore, the impulse granted toward the installation of European companies in the region is at the core of the EU strategy for the Mediterranean.

In this context, several initiatives have recently appeared toward this aim. The EIB decided to create an investment fund, open to all member States, to promote the creation of specialized instruments to support European companies that set up in MPCs. More recently, the government of the *Generalitat de Catalunya* (Catalan Government) announced that it intends to promote a risk capital fund to encourage Catalan and Spanish companies to invest principally in Algeria, Morocco and Tunisia, the three Maghreb countries with strongest political and economic links to Catalonia and Spain. The proposal of the Catalan Government is to open the fund to other public administration bodies, as well as to other multilateral financial bodies and private financial institutions It is an initiative that is already underway and which, despite its state-origin, it is proposed that it be administered using private criteria, with the conviction that this is the best way to ensure an adequate policy for investment of the funds that will ultimately support financially solvent projects.

As all these initiatives finally take off, they will doubtlessly open an interesting path for the promotion of FDI in MPCs. However, one must not forget that, ultimately, the decision of whether to invest or not belongs to the companies and that, even if attractive instruments and incentives are put in place from the public sphere, it is the private investor that inevitably has to take on the risks associated with the investment.