

The European Enlargement and its Effects on the Mediterranean

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The Partnership

Since 1995, the Barcelona Process has been the framework for the relationships between the EU and the Mediterranean partners and the Euro-Mediterranean Partnership became the instrument for pursuing a wider area of economic cooperation and stability.

Now that the EU's enlargement has been successfully completed in May 2004, the outcome of the Barcelona Process has been put under review, while the proposal for a new European Neighbourhood Policy is raising further questions in the Mediterranean countries. Despite its initial ambitions and the increase in European financial support, the Partnership has only achieved modest results in term of economic growth, trade integration and foreign direct investment (FDI) attractiveness.

When considering its successes and its failures, the review of the effects on the Mediterranean partners is rather complicated and the outcome is dominated by three important questions.

Firstly, the enlargement to include 10 new members has greatly changed the framework for trade, business and investment in the region, but cannot be blamed for the poor results of the Barcelona Process. On the contrary, the speed of adjustment and adaptation of the CEECs as well as the speed of reforms provides a valuable lesson to the Southern Mediterranean partners. However, since EU membership is not included in the offer and this option could reduce the perceived benefits, the unilateral adoption

of EU rules appears to be the most straightforward alternative that may be pursued in a selective manner ('à-la-carte'), according to their needs and policy goals. This integration model is not new in the geo-economic region, as in the case of Turkey and Israel, or in the more advanced EFTA (European Free Trade Association) countries and Switzerland. The political determination to proceed in this direction has the advantage of giving external credibility to the domestic reforms that will compensate for the short term costs of adjustment.

Secondly, the enlargement will develop a new status in the North-South relationships. Although in economic terms, the size of the EU will change only marginally (as a whole it represents just 5 percent of the EU-15 GDP) the asymmetry among the partners will assume substantial levels to make largely rhetorical the definition of "partnership": the management of the Partnership will consist in great measure in the adaptation of the Mediterranean countries to decisions and objectives made by the European partners, inevitably causing a scarce sense of "ownership" from the Mediterranean countries [Joffé (2001)]. This bias is going to undermine the idea of partnership and generate suspicion and resentment on the part of many Mediterranean countries. On the other hand, the South-South relationships have not yet produced the expected results and the attempts of economic integration were still less than those of political integration.

Thirdly, the central objective of the Partnership, the free trade zone, appears less favourable as the vertical direction of trade continues to dominate the scene. In the North-South relationships, the net of Association Agreements among the

UE and the single Mediterranean countries has proceeded very slowly. The European-Mediterranean free trade zone – that according to the original schedule had to be in effect in 2010 – will only become a reality after many years of delay. Also, the South-South relationships have not materialised. The trade agreements among the Mediterranean partners, necessary to complete the free trade area, are still not in place, with the exception of the Agadir agreement, just signed and whose effectiveness has yet to be verified, together with some bilateral agreements that have had as protagonists Morocco and Turkey.

The results after 10 years

Although the opening up of trade became more widespread during the mid nineties, the EU's trade with the southern Mediterranean Countries represents about 6 percent of total EU imports and 7 percent of total EU exports [Femise (2004, 2005)]. Excluding Turkey, Morocco and the oil exporting Algeria, all other Mediterranean partners have shown only a modest ability to increase their commercial penetration in the European markets, therefore supporting the conviction that the enlargement has diverted FDI and trade flows towards the CEECs. The Association Agreements were not able to revitalise trade integration between the two regions and they failed to compete with the stronger magnet of the enlargement.

However, from a southern perspective, the economic benefits can be more substantial, considering the size asymmetry. In fact, the divergence of the integration patterns depends on the country size and commitments to open their own

economic systems to international trade. Although the volume of Euro-Mediterranean trade has been growing rapidly in nominal terms, it grew less rapidly than total world trade. As a result, the EU share of Mediterranean trade declined to 46.7 percent in 2003 from 50.8 percent in 1995.

Trade between the southern and eastern Mediterranean countries and each other remained only about 5 percent of their total trade, although this figure is distorted by oil exports. For non-oil producers such as Jordan and Lebanon, more than 40 percent of exports are internal to the Middle East and North Africa. Foreign capital participation has been disappointing despite all Mediterranean countries introducing, during the past decade, a number of reforms to attract FDI. Far from reaching sustainable levels, capital inflows continued to fluctuate heavily from year to year, in almost every country of the region, as a consequence to some extent of the non-systematized approach to encourage foreign participation. In fact, political instability, volatile growth and sometimes, the attitude of the authorities were behind the lack of interest from investors, as the "general climate of business" was considered less attractive than in other regions such as East Asia, Latin America or Central Europe.

EU companies are the most active investors, even though the Mediterranean countries did not seem to be on the top of their preferences as a location for production plants. The Barcelona Process does not seem to have regenerated the same interest the European investors devoted to Central Europe.

The overall picture shows that the trade-driven approach has been insufficient to reduce the economic and social discrepancies between the north and the south of the Mediterranean: from 1995, in ten years, the per capita income gap has in fact widened instead of being reduced. The patterns confirm the conclusion of a large number of the studies on regional economic integration. The removal of tariffs and quantitative restrictions on trade of industrial products and a stable macroeconomic environment offer only marginal results in terms of welfare and trade improvements to the Mediterranean partners; some simulations have even underlined negative results in terms of

employment. Others, simulating the effects of the EU enlargement on some sectors like trade and energy forecasted some short term negative implications that could be mitigated by increased financial cooperation.

Even within the geographical context some disputes have been raised on the impact of investments due to the EU enlargement. Most of the region's countries have already attracted FDI in their natural resources, especially hydrocarbons. New investment decisions by foreign and domestic firms, say, in Algeria and Egypt in this sector, will depend on the world oil price fluctuations. Since there is no obvious evidence that this has been influenced by EU enlargement, then it is very uncertain that the last enlargement has influenced inflows to the Mediterranean countries, particularly in the energy sector. Instead, FDI in non energy sectors continued to depend on further progress in reforms and could be accelerated by prospects for an enlarged free trade area.

According to these analyses, simple trade liberalisation might not be sufficient to get meaningful improvements in terms of welfare, trade and employment and other complementary policies would be needed to further increase the integration of the two Mediterranean shores. Therefore new themes could be added. More specifically, the adaptation of the normative approach (legislative adjustment, procedures and regulations), more administrative cooperation, policy changes at a social level and the harmonisation of market institutions. Although often not defining it explicitly, many economists have also suggested deeper forms of integration, like the Single Market approach, which has the advantage of removing a wider range of frictions and distortions. The outcomes tend to yield greater welfare gains, than the simple trade liberalisation approach. Besides, geographic proximity facilitates economic integration with the Mediterranean countries through deeper forms of integration.

A step forward after the Eastern Enlargement

This deep integration approach is in effects to the centre of the European

Neighbourhood Policy that proposes a progressive integration to the European Single Market. From this point of view the Neighbourhood Policy represents a substantial progress in comparison to the Euro-Mediterranean Partnership, because it will accelerate and broaden the process of reform and modernisation. Nevertheless, as we have seen, the regional integrated area can produce regressive phenomena that, if not controlled, can lead the Euro-Mediterranean Partnership to a series of bilateral relationships, more or less in depth, without more regional ambitions. Besides, the difficulties of the Euro-Mediterranean Partnership are not due only to the weakness of its central tool: the free trade area. They are also underlined in the inter-governmental vision of the Partnership. Despite the ambitious decision to support multi-sector and regional initiatives, its funding and implementation has not extended the broad concept of partnership (a process of multilevel governance) to all stakeholders concerned with the local development, transferring to the Mediterranean partners the experience of more than ten years of Cohesion Policy and multilevel governance.

One easily reaches the conclusion that the new European Neighbourhood Policy introduces two novelties whose impact won't necessarily be converging.

The application of a process of differentiation among the single Mediterranean countries could cause a sort of disintegration in the region. There is in fact the risk that the Neighbourhood Policy will be perceived by the more interested Mediterranean countries as a sort of green light toward a deepening of the bilateral relationships (that is between the Union and the single Mediterranean partner) to the loss of the "regional construction." Therefore, in a certain measure, the differentiation foreseen by the Neighbourhood Policy is inconsistent with the objective "to create" a Mediterranean region and to foster the sub-regional South-South integration.

The second novelty regards the openness of trans-national and trans-border cooperation. The fact that only one fifth of the financial resources are destined to trans-national and trans-border cooperation is however, limiting the role of both the sub-national authorities and the local stakeholders, that represent the

real innovation for the regional integration. The reference to trans-border cooperation seems to go in the right direction, giving substance to the concept of partnership and to the adaptation of the subsidiary principle, adopted in the cohesion policies within the Union. The European experience in regional and cohesion policies shows that the application of this broader method of governance has progressively strengthened the sub-national authorities and all other organisations representing the civil society. As shown by the outcome of the enlargement process, one of the main advantages of the trans-national networks is that they have boosted international cooperation and supported legislative harmonisation. In contrast, this process has been particularly difficult and slow in many Mediterranean countries, due to the underdevelopment and weak structure of the private sector. The potential to join European trans-national production networks is already there and it needs to be supported by more active stakeholders and by enabling 'service links' (e. g. telecom, transport, financial services) that allow companies to coordinate their activities and increase

their participation in the Partnership. Of course, this could be the added value of the greater involvement of the sub-national actors and their transposition into the Euro-Mediterranean Partnership, not only in the economic sense, of territorial redistribution of income, but of territorial redistribution of competences and responsibilities. From this point of view the proposals of Action Plans presented by the Commission are far from ambitious, with the exception of Morocco, where a process of decentralization has been in place for more than a decade and its Action Plan makes explicit reference to the role of local communities and trans-border cooperation. Ambitions and timidities seem therefore to characterise the actual phase of elaboration of a Mediterranean strategy after the enlargement. Nevertheless to underestimate the decentralized cooperation would jeopardize both the regional objectives (that is, differentiation would prevail in strengthening the trend to a bilateral approach instead that towards regionalism) and the progression towards the sustainable development in the Mediterranean countries, an objective that the actual situation of the

region should make a priority. The harmonic and flexible framework of the Partnership, in which different forms of cooperation were mutually sustained, cannot be taken for granted, but must be supported and framed through coherent choices, that seem to ask for a greater determination and participation in defining the actions of the European Neighbourhood Policy.

References

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