

# Has the Mediterranean Any Need to Fear the Enlargement of the EU?

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By speeding up the accession of the twelve countries of Central and Eastern Europe (CCEEs), the EU has sanctioned the success of the transition, yet at the same time has made a delicate political wager in the taking of its revenge on Yalta by consigning firmly to the past the division of Europe inherited from the Soviet period. In so doing, however, the EU has prompted the fears of the countries of the southern Mediterranean.

With the enlargement process, the EU has temporarily evaded the dilemma of deepening vs. enlarging, but this dilemma is once again to raise its head, because the true question of tomorrow will not only concern the determination of Europe's borders (fortresses or links), but also the very identity of Europe, and its role in the global system and in the immediate neighbouring regions, notably the Mediterranean regions, on both shores of the ocean. The countries in southern Europe harbour three principal fears:

- That the structural funds currently allocated to them will be revised and reduced in order to finance the costs of enlargement.
- That commercial traffic will shift away from them toward the CCEEs.
- That intensive-labour manufacturing will divert toward the CCEEs in order to take advantage of wage cost differentials.

These are basically the same fears that were expressed by certain northern European countries on

the admission of Portugal and Spain in 1986 into the EU, and which were later proved groundless due to the fact that the loss experienced in one sector was more than compensated for by the overall gain stimulated by the increase in the internal market. However, these fears are more acute in the present case of the southern shores.

## Enlargement and its Impact on Other Mediterranean Countries

In hearing certain Mediterranean peoples, especially in North Africa, enumerate their grievances and fears, one has the impression that for them, *further* enlargement to the East will mean *less* Euro-Mediterranean Partnership (Samir Sobh, 2002). But the belief that whatever the EU gives to the East is taken from the southern Mediterranean is, at the very least, open to debate. The reasons that led the EU to propose the Euro-Mediterranean partnership in 1995 remain unchanged. The EU's objectives are to help the southern Mediterranean countries restructure their economies and reform their states in order to bring them out of the economic wilderness; to stabilise their societies; to prevent their marginalisation in the global system; and to reduce the pressure of migration.

Moreover, in Agenda 2000, the EU reiterated its resolute commitment to building stronger relations with Mediterranean countries, stating that the stable development of the southern Mediterranean rim is a challenge of ever increasing proportions. The potential of the Barcelona Process will have to be fully exploited to that end. The Union will also have to maintain an increased presence in the Middle East as one of the main promoters of peace in that region. Enlargement should therefore lead to an intensification of economic and commercial relations between the

European Union and its southern partners, based on the pursuit of reciprocal interests.

Appearing as they do in a programmatic document such as Agenda 2000, these remarks leave us in little doubt concerning the interest that has led the EU to pursue the Barcelona Process. The EU cannot abandon the south in order to devote itself solely to its eastern front. This is neither in its geopolitical nor its geo-economic interests, nor even is it desirable from the point of view of the internal balances within the Union, as neglecting the Mediterranean would reinforce the Central European states, notably Germany, at the cost of France and the other European states in the south.

That said, it would be naïve to imagine that enlargement will have only a neutral effect on Mediterranean countries.

### **Contrasting Effects**

A simple comparison of the statistical data concerning the evolution of EU-CCEE trade, and of trade between the EU and Mediterranean countries reveals the explosion in commerce between the EU and the CCEEs that has been affected since 1989 and in particular since 1994. Exports to the CCEEs were multiplied by 4.5 between 1994 and 2000, and imports to the EU from the CCEEs increased three-fold. In the space of a few years, the EU has become both the main client and the leading supplier of all these countries. There is every reason to suppose that these upward trends will continue after accession, though at a less sustained rate, given that the CCEEs' access to the Community market, with the exception of agricultural produce, will be unhindered by any restraint.

In comparison, the twelve Mediterranean countries' trade with the EU doubled in value between 1994 and 2000, to reach the sum of €151 billion. However, five of these twelve members (the three countries of the central Maghreb, Turkey and Israel) have between them garnered 80% of the commerce carried out between the two shores. Even so, this rise masks the inequalities that the latest FEMISE Report (2002) highlights in the cases of Israel and Turkey: the increase in the value of their exports principally reflects a rise in volume (+80% for Turkey and +72% for Israel), whereas the increase stands at just +20% for the Maghreb and is attributed to higher prices, especially for gas and petroleum. But regardless of

whether the rise is due to an increase in volume or in value, the fact remains that trade between the EU and Mediterranean countries has evolved at a slower pace than trade between the EU and the CCEEs.

Are we to conclude from this that commercial traffic is being deviated away from Mediterranean countries? It is difficult to blame competition from the East European countries as the sole reason for the slow progress of trade between the EU and Mediterranean countries. Limited economic diversification (except in Israel and Turkey, and to a lesser extent in Tunisia) has restricted the export potential of Mediterranean countries, whose exports are mostly limited to a relatively small range of products: petroleum, gas, agricultural produce, textiles, footwear and some manufactured goods. The CCEEs compete with these countries solely in the clothing and footwear sectors and in those of a few manufactured goods. There can be no doubt that such competition will become more fierce after accession, due to the combination of the gradual technological improvements that will take place in East European countries and relatively low wage costs, a well-trained populace, a long tradition in industry, transport infrastructure linking these countries to others in the EU, and a massive influx of direct investment and aid of various types. This undeniable comparative advantage nevertheless should be tempered, as above all the border regions of the eastern countries will be those that are the most exposed to EU trade: we should not forget that three-quarters of the CCEEs trade is carried out with the four border countries: Germany, Austria, Italy and Finland.

In reality, the most worrying challenge that Mediterranean countries will have to face will arise essentially as a consequence of the liberalisation of multi-lateral trade, that will contribute to increasing competition and to eroding preferential access to the European market.

This does not mean that we need to minimise the overall impact of enlargement on Mediterranean countries. But it is difficult to evaluate the consequences before the event has taken place. The few experiences we have of simulations have not been conclusive in every case.

### **Notable Differences in Investment Flows**

It is precisely at the level of investment and structural aid that the difference between the CCEEs and

the twelve Mediterranean countries is most clearly demonstrated. Firstly, if we look at pre-accession aid, a brief comparison of the various European financial instruments shows that the EU has allocated or will allocate €30 per year per head of population to the CCEEs (for the period 2000 to 2006), whereas it has allocated or will allocate €4 under the MEDA framework programme (southern and eastern Mediterranean countries), €2 under the TACIS programme (former USSR states) and €31 under the CARDS programme (western Balkans) (Jean-François Drevet, 2003).

TABLE 1	Table comparing European financial instruments in 2002 (millions of Euros)
Pre-accession	3,328
MEDA	861
TACIS	474
CARDS	765

Source: Drevet, 2003

The gradual disappearance of trade barriers, the increased rate of privatisation and the heralding of accession have all raised the appeal of the region for foreign investment, as the figures show, reaching almost \$15 billion in annual flows of capital. In the opposite field, Mediterranean countries are also working hard to attract investors: in 2000 they drew \$8 billion in inward direct foreign investment, though this was an exceptional year in comparison with 1999, when just \$4 billion in direct investment was achieved. At 105 million, the population of the CCEEs, including Rumania and Bulgaria, is just half of the population of the twelve Mediterranean countries, which stands at 210 million.

There are grounds for thinking that this difference will not become blurred in the near future, and that quite the opposite will occur. Experience of previous enlargements has shown that joining the EU stimulates capital flows. In addition, the European Commission believes that such flows are doubled following accession and above all with the harmonisation of the rules regulating financial markets. In consequence, it is to be expected that further privatisations and the gradual maturing of stock markets will draw yet more investment and aid of every kind to the CCEEs. In contrast, Mediterranean countries, whose share of worldwide direct investment has stagnated at around 1% (0.7% in 2000), and of European direct investment at around 1.5%, will continue to suffer as a result of their poor image, frag-

mented, indebted economies with little diversification, an institutional framework that remains unclear and their immature stock markets.

In the light of all these factors, it is foreseeable that the CCEEs' advantage over the Mediterranean countries will increase still further, at least with regard to investment. For every Euro invested in the Mediterranean, three or four will go to the CCEEs. But if we look deeper, it soon becomes clear that it is not so much the CCEEs that are the true competitors of the Mediterranean, but South America, which has attained almost 10.8% of European direct investment, as opposed to the 1.5% that has gone to the Mediterranean. In the future, it will not just be the CCEEs competing with Mediterranean countries but South America, China, India and the other Asian countries as well.

## Opportunities

Enlargement will not bring only disadvantages but certain opportunities too, as the CCEEs will also be consumers of goods and services. From 2004 onward, the enlarged EU will constitute a market of some 454 million consumers, in comparison with its 378 million on 1 January 2003. With the anticipated rise in the CCEEs' standard of living, we can expect to see increased demand for all kinds of products, and hence agricultural produce and manufactured goods, as well as mineral products, from the Mediterranean region. It is even likely that current competition in the footwear, clothing and textile sectors will diminish due to rises in wage costs in the CCEEs and improvements in technology stimulated by structural funds and investment.

The rise in the standard of living will in turn stimulate the leisure industry, notably tourism abroad. Due to the geographical proximity of the Mediterranean region, the quality of its amenities and the diversity of its cultural and tourism products, during the next ten to fifteen years the region could attract several hundred thousand new tourists from the CCEEs that have become new members of the EU.

The oil and especially the gas industries will also find new outlets. Countries such as Algeria or Libya, which will sooner or later become members of the Barcelona Process, should be the main beneficiaries. It is true for the moment that the CCEEs are meeting their needs by importing gas and petroleum, notably from Russia and the Caspian Sea,

TABLE 2 Candidate countries and Mediterranean partners. Basic statistics

	Population (in mil.)	Population under 15 (in %)	GDP (€ billion)	GDP by sector (in %)			Unemployment rate (%)	Unemployment rate for young people (<25) (%)
				Agriculture	Industry	Services		
Czech Rep.	10.3	16.1	63.3	4.2	40.0	55.8	8.0	16.3
Estonia	1.4	17.7	6.2	5.8	28.7	65.5	12.4	24.5
Hungary	10.2	16.5	57.8	4.3	32.0	63.7	5.7	10.5
Latvia	2.4	17.0	8.5	4.7	24.9	70.4	13.1	22.9
Lithuania	3.5	19.3	13.4	7.1	33.9	59.0	16.5	30.9
Poland	38.6	18.5	196.7	3.4	32.9	63.7	18.4	41.5
Slovakia	5.4	19.2	22.8	4.6	32.7	62.7	19.4	38.9
Slovenia	2.0	15.6	20.9	3.1	36.8	60.1	5.7	15.7
Cyprus	0.8	21.9	10.2	3.9	19.5	76.6	3.9	8.3
Malta	0.4	20.1	4.0	2.4	27.3	70.4	6.5	15.4
Algeria	30.3	33.9	61.1	9.8	54.7	35.5	27.3	46.2
Egypt	64.6	37.7	90.7	16.3	34.8	48.9	9.0	28.2
Israel	4.4	28.6	124.8	1.7	23.8	76.4	8.8	16.9
Jordan	5.0	39.6	9.9	2.1	25.2	74.9	13.7	26.6
Lebanon	4.0	28.1	18.7	-	-	-	-	-
Morocco	28.7	32.3	37.8	17.1	33.4	54.7	12.5	18.9
Palestine	3.1	46.8	4.8	10.6	23.8	69.2	25.5	21.4
Syria	16.3	40.5	20.0	-	-	-	10.3	-
Tunisia	9.5	30.9	22.3	13.4	27.7	56.7	15.0	29.8
Turkey	67.4	30.0	161.8	11.3	24.2	59.7	8.5	13.2

Sources: Eurostat, *Key structural data for the 10 Acceding Countries, 2002*; *Euromediterranean statistics 2/2001, 2002*; *The Mediterranean countries in 2001: selected indicators, 2002*; *The GDP of the Mediterranean partner countries, 2003*.

but it is safe to assume that they will be obliged to diversify their imports, if only for reasons of internal security.

In conclusion, without minimising the possible negative impact of enlargement on Mediterranean countries, consisting in particular of the diversion of commercial traffic and the garnering of investment, it is likely that the growth in the size of the market will create beneficial effects in every other respect. The risk of the future will not be so directly linked with enlargement itself as with the predictable attenuation of trade preference, from which Mediterranean countries currently benefit as a result of multilateral commercial negotiations.

## Conclusion

Following the accession of the ten countries of Central and Eastern Europe, joined in 2007 by Bulgaria and Rumania, the EU will have added a further 1.1 million square kilometres to its surface area (or 33% of its current surface area), it will have gained an added population of 105 million inhabitants

(29% of its current population) and the number of languages in use in the EU will rise from eleven to twenty-one in 2004 and to twenty-three in 2007. By 2007, a further thousand interpreters will have to be added to the 3,500 that are currently employed by European institutions. The annual budget allocated to translation (presently €95 million) could amount to hundreds of millions (in its issue of 3 July 2002, *Le Monde* newspaper hazarded a guess of €521 million beyond 2005).

However, these complicated accounts may seem laughable in the face of what could be regarded as the magnificent revenge of history: the opening of the EU to countries that barely twelve years ago in a divided Europe were on the opposite side of the Iron Curtain.

Nevertheless, the enlargement will not be without impact on the countries of the southern Mediterranean region. But we must put an end to the regrettable tendency of viewing the eastward enlargement as a new source of threats to trade, investment, European aid and even to immigration. I have written elsewhere (Bichara Khader, 2003), without being overly optimistic or alarmist, that enlargement may

indeed deflect the attention of the EU, which will have to earmark €40 billion to its new members between 2004 and 2006, direct a major share of the investment it makes to these countries, increase its trade with them, and implement a less restrictive policy regarding the free movement of people. But lamenting these changes that are both foreseeable and, in the final analysis, necessary, will alter nothing. A more constructive attitude would be that of seeing enlargement as a new opportunity to be seized by Mediterranean countries. As the bulletin of the European Delegation to Tunis (in the second half of 2002) rightly states, the ten CCEEs will be additional markets and new sources of tourists and investment.

In order to make the most of this opportunity, we have to actively prepare for it, by forging new economic contacts with these countries, launching joint ventures between small and medium-sized companies, setting up tourist centres for the Mediterranean region, and promoting cultural and scientific exchanges. In short, it is not a question of making the best of a bad situation, but of fully exploiting the effects of the growth of the Greater European Market, and of profiting from the experience acquired by the CCEEs, which have gone in record time (fewer than ten years) from being planned economies to transition economies that are shaping themselves to the Community. This rapid economic transformation is a lesson to be read attentively and to use as a source for inspiration, though of course with the due precaution required by the particular situation of each Mediterranean country.

It emerges from all of this that enlargement ought to go hand in hand with the re-invigoration of the Euro-Mediterranean Partnership. This is indeed the wish of one of the great figures of Europe, Jacques Delors, who wrote, «The fact that our attention is

focused on the success of enlargement should not make us forget the South» (Jacques Delors, 2003). On the contrary, we should remember the central position of the Mediterranean, not from a Eurocentric, closed and one-sided point of view, as the President of the European Commission Romano Prodi reminded us in a conference given at the CERMAC (26 November 2002), but rather «by basing ourselves on a certain idea of co-belonging» (Romano Prodi, 2002).

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